

## Introduction

**T**he principal consolidated financial statements included in this report are prepared pursuant to the requirements of the Accountability of Tax Dollars Act of 2002 and the Department of Homeland Security (DHS) Financial Accountability Act of 2004, to meet the requirements of the Chief Financial Officers Act of 1990. Other requirements include the Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Circular No. A-136. The responsibility for the integrity of the financial information included in these statements rests with the management of DHS. An independent certified public accounting firm, selected by the Department's Inspector General, was engaged to perform the audit of the consolidated balance sheet. The independent auditors' report accompanies the principal consolidated statements. These financial statements include the following:

- The **Consolidated Balance Sheet** presents as of September 30, 2005 and 2004, those resources owned or managed by DHS which are available for future economic benefits (assets); amounts owed by DHS that will require payments from those resources or future resources (liabilities) and residual amounts retained by DHS, comprising the difference (net position).
- The **Consolidated Statement of Net Cost** presents the net cost of DHS operations for the years ended September 30, 2005 and 2004. DHS net cost of operations includes the gross costs incurred by DHS less any exchange revenue earned from DHS activities.
- The **Consolidated Statement of Changes in Net Position** presents the change in DHS' net position resulting from the net cost of DHS operations, budgetary financing sources and other financing sources for the years ended September 30, 2005 and 2004.
- The **Combined Statement of Budgetary Resources** presents the budgetary resources available to DHS during fiscal years 2005 and 2004, the status of these resources at September 30, 2005 and 2004, and the outlay of budgetary resources for the years ended September 30, 2005 and 2004.
- The **Consolidated Statement of Financing** presents the reconciliation of the net cost of operations with the budgetary resources for the years ended September 30, 2005 and 2004.
- The **Statement of Custodial Activity** presents the disposition of custodial revenue collected and disbursed by DHS on behalf of other recipient entities for the years ended September 30, 2005 and 2004.

## LIMITATIONS OF FINANCIAL STATEMENTS

**T**he principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of Title 31, United States Code, Section 3515 (b) relating to financial statements of agencies. While the statements have been prepared from the books and records of the agency in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the formats prescribed by OMB, the statements are in addition to the

financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

**Department of Homeland Security  
Consolidated Balance Sheet  
As of September 30, 2005 and 2004  
(In Millions)**

	<b><u>2005</u></b> <b>(Unaudited)</b>	<b><u>2004</u></b> <b>(Unaudited)</b>
<b>ASSETS (Notes 2 and 22)</b>		
<b>Intragovernmental</b>		
Fund Balance with Treasury (Notes 2 and 3)	\$97,004	\$33,436
Investments, Net (Note 4)	738	1,625
Advances and Prepayments (Note 6)	2,937	2,886
Other (Note 12)	361	481
<b>Total Intragovernmental</b>	<b>101,040</b>	<b>38,428</b>
Accounts Receivable, Net (Note 5)	532	463
Tax, Duties, and Trade Receivables, Net (Notes 2 and 7)	1,400	1,273
Operating Materials, Supplies, and Inventory, Net (Note 9)	506	496
General Property, Plant, and Equipment, Net (Note 11)	10,470	9,746
Other (Note 12)	558	400
<b>Total Assets</b>	<b>\$114,506</b>	<b>\$50,806</b>
<b>LIABILITIES (Note 13)</b>		
<b>Intragovernmental</b>		
Due to the Treasury General Fund (Note 14)	\$1,434	\$1,257
Accounts Payable	870	911
Other (Note 19)	854	563
<b>Total Intragovernmental</b>	<b>3,158</b>	<b>2,731</b>
Accounts Payable	3,329	2,791
Claims and Claims Settlement Liabilities (Note 15)	23,433	1,417
Deferred Revenue and Advances from others (Note 16)	2,014	2,020
Accrued Payroll and Benefits (Note 17)	2,845	2,692
Military Service and Other Retirement Benefits (Note 18)	29,021	26,502
Other (Note 19)	5,945	4,166
<b>Total Liabilities</b>	<b>69,745</b>	<b>42,319</b>
Commitments and contingencies (Notes 20 and 21)		
<b>Net Position</b>		
Unexpended Appropriations	87,166	25,504
Cumulative Results of Operations	(42,405)	(17,017)
<b>Total Net Position</b>	<b>\$44,761</b>	<b>\$8,487</b>
<b>Total Liabilities and Net Position (Note 22)</b>	<b>\$114,506</b>	<b>\$50,806</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

<b>Directorates and Other Components (Note 23)</b>	<b><u>2005</u></b> <b>(Unaudited)</b>	<b><u>2004</u></b> <b>(Unaudited)</b>
<b><i>Border and Transportation Security</i></b>		
Gross Cost	\$17,914	\$16,646
Less Earned Revenue	(3,547)	(2,905)
<b>Net Cost</b>	<b>14,367</b>	<b>13,741</b>
<b><i>Emergency Preparedness and Response</i></b>		
Gross Cost	39,805	7,819
Less Earned Revenue	(2,178)	(2,020)
Net Cost of Continuing Operations	37,627	5,799
Cost of Transferred Operations (Note 29)	-	98
<b>Net Cost</b>	<b>37,627</b>	<b>5,897</b>
<b><i>Information Analysis and Infrastructure Protection</i></b>		
Gross Cost	652	497
Less Earned Revenue	-	-
<b>Net Cost</b>	<b>652</b>	<b>497</b>
<b><i>Science and Technology</i></b>		
Gross Cost	743	755
Less Earned Revenue	(12)	-
<b>Net Cost</b>	<b>731</b>	<b>755</b>
<b><i>United States Coast Guard</i></b>		
Gross Cost	9,589	8,317
Less Earned Revenue	(220)	(157)
<b>Net Cost</b>	<b>9,369</b>	<b>8,160</b>
<b><i>United States Secret Service</i></b>		
Gross Cost	1,505	1,386
Less Earned Revenue	(22)	(18)
<b>Net Cost</b>	<b>1,483</b>	<b>1,368</b>
<b><i>United States Citizenship and Immigration Services</i></b>		
Gross Cost	1,291	1,758
Less Earned Revenue	(1,622)	(1,310)
<b>Net Cost</b>	<b>(331)</b>	<b>448</b>
<b><i>Departmental Operations and Other</i></b>		
Gross Cost	2,519	2,270
Less Earned Revenue	(12)	(8)
<b>Net Cost</b>	<b>2,507</b>	<b>2,262</b>
<b>Net Cost of Operations (Note 23)</b>	<b>\$66,405</b>	<b>\$33,128</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Consolidated Statement of Changes in Net Position**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

		<u>2005</u>		<u>2004</u>
	<u>Cumulative Results of Operations (Unaudited)</u>	<u>Unexpended Appropriations (Unaudited)</u>	<u>Cumulative Results of Operations (Unaudited)</u>	<u>Unexpended Appropriations (Unaudited)</u>
<b>BEGINNING BALANCES</b>	<b>\$(17,017)</b>	<b>\$25,504</b>	<b>\$(15,680)</b>	<b>\$23,560</b>
<b>Budgetary Financing Sources:</b>				
Prior Period Adjustments:				
Correction of Errors (Note 30)	(127)	163	-	-
<b>Beginning Balance, as Adjusted</b>	<b>(17,144)</b>	<b>25,667</b>	<b>(15,680)</b>	<b>23,560</b>
<b>Budgetary Financing Sources:</b>				
Appropriations Received (Note 24)	-	101,251	-	33,410
Appropriations Transferred in/out	-	158	-	(398)
Rescissions and Other Adjustments (Notes 3 and 24)	-	(1,876)	-	(2,398)
Appropriations Used	38,034	(38,034)	28,670	(28,670)
Non-exchange Revenue	2,315	-	2,308	-
Donations and Forfeitures of Cash/Equivalents	3	-	3	-
Transfers in/out without Reimbursement	265	-	672	-
Other	(143)	-	73	-
<b>Other Financing Sources:</b>				
Donations and Forfeitures of Property	8	-	8	-
Transfers in/out Without Reimbursement	11	-	(685)	-
Imputed Financing from Costs Absorbed by Others	651	-	742	-
<b>Total Financing Sources</b>	<b>41,144</b>	<b>61,499</b>	<b>31,791</b>	<b>1,944</b>
<b>Net Cost of Operations</b>	<b>(66,405)</b>	<b>-</b>	<b>(33,128)</b>	<b>-</b>
<b>Net Change</b>	<b>(25,261)</b>	<b>61,499</b>	<b>(1,337)</b>	<b>1,944</b>
<b>ENDING BALANCES</b>	<b>\$(42,405)</b>	<b>\$87,166</b>	<b>\$(17,017)</b>	<b>\$25,504</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Combined Statement of Budgetary Resources (page 1 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

<b>BUDGETARY RESOURCES</b>	<b>2005</b> (Unaudited)	<b>2004</b> (Unaudited) (Restated)
Budget Authority:		
Appropriations Received	\$106,691	\$38,303
Borrowing Authority	2,026	26
Net Transfers	326	757
Unobligated Balance:		
Beginning of Period (Notes 24 and 30)	8,392	8,659
Net Transfers	11	41
Spending Authority from Offsetting Collections:		
Earned:		
Collected	7,716	6,282
Receivable from Federal Sources	(142)	9
Change in Unfilled Customer Orders:		
Advance Received	571	87
Without Advance From Federal Sources	569	258
Transfers from Trust Funds	50	55
Subtotal	8,764	6,691
Recoveries of Prior Year Obligations	1,431	1,982
Temporarily Not Available Pursuant to Public Law	-	(17)
Permanently Not Available (Note 24)	(1,961)	(2,563)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$125,680</b>	<b>\$53,879</b>
<b>STATUS OF BUDGETARY RESOURCES</b>		
Obligations Incurred:		
Direct (Note 24)	\$64,227	\$42,607
Reimbursable (Note 24)	4,394	2,880
Subtotal	68,621	45,487
Unobligated Balance:		
Apportioned		
Balance, Currently Available	51,837	6,712
Exempt from Apportionment	45	42
Unobligated Balance Not Available	5,177	1,638
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$125,680</b>	<b>\$53,879</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Combined Statement of Budgetary Resources (page 2 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
(In Millions)

RELATIONSHIP OF OBLIGATIONS TO OUTLAYS	<u><b>2005</b></u> (Unaudited)	<u><b>2004</b></u> (Unaudited) (Restated)
Obligated Balance, Net, Beginning of Period (Notes 24 and 30)	24,781	19,689
Obligated Balance Transferred, Net	89	(559)
Obligated Balance, Net, End of Period:		
Accounts Receivable	(295)	(437)
Unfilled Customer Orders from Federal Sources	(1,550)	(981)
Undelivered Orders	34,614	21,354
Accounts Payable	5,674	4,845
Outlays:		
Disbursements	53,175	37,601
Collections	(8,336)	(6,424)
Subtotal	44,839	31,177
Less: Offsetting Receipts	(4,152)	(3,779)
<b>NET OUTLAYS</b>	<u><u><b>\$40,687</b></u></u>	<u><u><b>\$27,398</b></u></u>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Consolidated Statement of Financing (page 1 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
**(In Millions)**

	<u><b>2005</b></u> <b>(Unaudited)</b>	<u><b>2004</b></u> <b>(Unaudited)</b> <b>(Restated)</b>
<b>Resources Used to Finance Activities:</b>		
<b>Budgetary Resources Obligated</b>		
Obligations Incurred	\$68,621	\$45,487
Less: Spending Authority from Offsetting Collections and Recoveries	(10,195)	(8,673)
Obligations Net of Offsetting Collections and Recoveries	58,426	36,814
Less: Offsetting Receipts	(4,152)	(3,779)
Net Obligations	54,274	33,035
<b>Other Resources</b>		
Donations and Forfeiture of Property	8	8
Transfers in(out) Without Reimbursement	11	(685)
Imputed Financing from Costs Absorbed by Others	651	742
Net Other Resources Used to Finance Activities	670	65
<b>Total Resources Used to Finance Activities</b>	<b>54,944</b>	<b>33,100</b>
<b>Resources Used to Finance Items Not Part of the Net Cost of Operations</b>		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	12,866	5,029
Resources that Fund Expenses Recognized in Prior Periods	26	578
Budgetary Offsetting Collections and Receipts that do not Affect Net Cost of Operations:		
Credit program Collections that increase Liabilities for Loan Guarantees or Allowances for Subsidy	(8)	(1,182)
Other	(344)	(816)
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	1,860	1,575
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	(499)	(471)
<b>Total Resources Used to Finance Items Not Part of the Net Cost of Operations</b>	<b>14,898</b>	<b>4,713</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>40,046</b>	<b>28,387</b>

The accompanying notes are an integral part of these statements.

**Department of Homeland Security**  
**Consolidated Statement of Financing (page 2 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
**(In Millions)**

	<u><b>2005</b></u> <b>(Unaudited)</b>	<u><b>2004</b></u> <b>(Unaudited)</b> <b>(Restated)</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
<b>Components Requiring or Generating Resources in Future Periods:</b>		
Increase in Annual Leave Liability	67	202
Increase in Unfunded Environmental and Disposal Liability	13	62
Increase in Unfunded Claims and Claims Settlement Liabilities	21,651	1,021
Increase in Exchange Revenue Receivable from the Public	(95)	(32)
Increase in Actuarial Pension Liability	1,691	-
Increase in CG Military Post Employment Benefits	17	1,217
Increase in Actuarial Health Insurance Liability	811	133
Other	311	786
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	24,465	3,389
<b>Components not Requiring or Generating Resources:</b>		
Depreciation and Amortization	1,108	1,011
Revaluation of Assets or Liabilities	543	39
Other	243	302
Total Components of Net Cost of Operations that will not Require or Generate Resources	1,894	1,352
<b>Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period</b>	<b>26,359</b>	<b>4,741</b>
<b>Net Cost of Operations</b>	<b>\$66,405</b>	<b>\$33,128</b>

The accompanying notes are an integral part of these statements.



**Department of Homeland Security**  
**Consolidated Statement of Financing (page 2 of 2)**  
**For the Years Ended September 30, 2005 and 2004**  
**(In Millions)**

	<b><u>2005</u></b> <b>(Unaudited)</b>	<b><u>2004</u></b> <b>(Unaudited)</b>
<b>Revenue Activity:</b>		
Sources of Cash Collections:		
Duties	\$23,198	\$20,966
User Fees	1,305	924
Excise Taxes	2,335	2,271
Fines and Penalties	63	57
Interest	9	11
Miscellaneous	417	225
Total Cash Collections	<u>27,327</u>	<u>24,454</u>
Accrual Adjustment	253	(5)
<b>Total Custodial Revenue</b>	<u>27,580</u>	<u>24,449</u>
<b>Disposition of Collections:</b>		
Transferred to Non-Federal Entities	522	182
Transferred to Federal Entities	25,649	23,287
Refunds and Drawbacks (Notes 19 and 25)	1,159	970
Retained by the Department	250	10
<b>Total Disposition of Custodial Revenue</b>	<u>27,580</u>	<u>24,449</u>
<b>Net Custodial Activity</b>	<u><u>\$0</u></u>	<u><u>\$0</u></u>

The accompanying notes are an integral part of these statements.

## Notes to the Financial Statements

### TABLE OF CONTENTS FOR NOTES TO THE FINANCIAL STATEMENTS (UNAUDITED)

NOTE NO.	TITLE OF NOTE	PAGE NUMBER
1.	Summary of Significant Accounting Policies	362
2.	Non-Entity Assets	378
3.	Fund Balance with Treasury	379
4.	Investments, Net	381
5.	Accounts Receivable, Net	382
6.	Advances and Prepayments	382
7.	Tax, Duties and Trade Receivables, Net	383
8.	Credit Program Receivables, Net	384
9.	Operating Materials, Supplies, and Inventory, Net	386
10.	Prohibited Seized Property	387
11.	Property, Plant, and Equipment, Net	389
12.	Other Assets	391
13.	Liabilities Not Covered by Budgetary Resources	392
14.	Due to the Treasury General Fund	392
15.	Claims and Claims Settlement Liabilities	393
16.	Deferred Revenue and Advances from Others	394
17.	Accrued Payroll and Benefits	395
18.	Military Service and Other Retirement Benefits	395
19.	Other Liabilities	398
20.	Leases	400
21.	Contingent Liabilities and Other Commitments	401
22.	Balance Sheet Crosswalk to OMB Circular A-136 Classifications	403
23.	Consolidated Statement of Net Cost and Net Costs of DHS Components	405
24.	Combined Statement of Budgetary Resources (SBR)	412
25.	Permanent Indefinite Appropriations	414
26.	Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority	415
27.	Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources and the Changes in Components Requiring or Generating Resources in Future Periods	416
28.	Dedicated Collections	417
29.	Transfer of the Strategic National Stockpile	418
30.	Restatements	419

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

## A. Reporting Entity

The Department of Homeland Security (DHS or Department) was established by the *Homeland Security Act of 2002 (HSA)*, Public Law (P.L.) 107-296, dated March 25, 2002, as an executive department of the United States government. The Department is subject to the requirements of the *Department of Homeland Security Financial Accountability Act* (DHS Accountability Act). The strategic goals directly linked to the Department's mission are:

- **Awareness:** Identify and understand threats, assess vulnerabilities, determine potential impacts and disseminate timely information to our homeland security partners and the American public;
- **Prevention:** Detect, deter and mitigate threats to our homeland;
- **Protection:** Safeguard our people and their freedoms, critical infrastructure, property and the economy from acts of terrorism, natural disasters or other emergencies;
- **Response:** Lead, manage and coordinate the national response to acts of terrorism, natural disasters, or other emergencies;
- **Recovery:** Lead Federal, state, local and private sector efforts to restore services and rebuild communities after acts of terrorism, natural disasters, or other emergencies;
- **Service:** Serve the public effectively by facilitating lawful trade, travel and immigration; and
- **Organizational Excellence:** Value our most important resource, our people. Create a culture that promotes a common identity, innovation, mutual respect, accountability and teamwork to achieve efficiencies, effectiveness and operational synergies.

The Department is composed of the following organizational elements, hereafter referred to as components:

### **Directorates:**

#### **Border and Transportation Security Directorate (BTS):**

- U.S. Customs and Border Protection (CBP)
- U.S. Immigration and Customs Enforcement (ICE), including Federal Protective Service (FPS) and Federal Air Marshal Service (FAM)
- Transportation Security Administration (TSA)
- Federal Law Enforcement Training Center (FLETC)

**Emergency Preparedness and Response Directorate (EP&R):** the core of EP&R includes the Federal Emergency Management Agency (FEMA)

#### **Information Analysis and Infrastructure Protection Directorate (IAIP)**

#### **Science and Technology Directorate (S&T)**

**Management Directorate** (presented in the Net Cost Statement and related notes as part of Departmental Operations and Other, which includes the Office of State and Local Government Coordination and Preparedness and Office of the Inspector General)

**Other Components:**

**U.S. Coast Guard (USCG)**

**U.S. Secret Service (USSS)**

**U.S. Citizenship and Immigration Services (USCIS)**

**Office of State and Local Government Coordination and Preparedness (SLGCP)**

**Office of the Inspector General (OIG)**

On July 21, 2004, the President signed the *Project Bioshield Act of 2004*, P.L. 108-276. This Act authorized the transfer of the Strategic National Stockpile (SNS) functions, personnel, assets, unexpended balances and liabilities to the Department of Health and Human Services (HHS). Pursuant to *Project Bioshield Act of 2004*, on August 13, 2004, the Department transferred the SNS from EP&R to HHS. Although the program was transferred, operations related to the SNS activities are reflected in the Department's Consolidated Statement of Net Cost through the date of transfer.

During fiscal year 2004, the Department merged the Office of Domestic Preparedness (ODP) with the Office of State and Local Government Coordination (SLGC) to form SLGCP. The SLGCP reports directly to the Secretary and is responsible for information flow between the Department and state and local governments, for state and local grant award functions, and for building and sustaining the terrorism preparedness of the first responder community. Beginning in fiscal year 2005, select grant award functions previously administered by EP&R and TSA were transferred to SLGCP. Consequently, the Department is presenting the SLGCP as part of Departmental Operations and Other in the consolidated financial statements and related notes, previously SLGCP was presented as part of the BTS in the consolidated financial statements and related notes. Beginning in fiscal year 2005, FPS was transferred within the Border and Transportation Security Directorate to ICE. Fiscal year 2004 SLGCP and FPS financial results have been reclassified for comparative purposes to conform with the fiscal year 2005 presentation.

The fiscal year 2005 Department of Homeland Security Appropriations Act directed the transfer of missions and assets of the Air Marine Operations (AMO) from ICE to CBP (both components of BTS). The transfer was completed in two phases. Phase One was completed on October 31, 2004, moving AMO intact from ICE to CBP. This phase included the transfer of responsibility for all AMO operations, personnel, missions, commitments, facilities, and assets to CBP. Phase Two, which commenced in late November 2004 and completed in August 2005, integrated all CBP air and marine operations, personnel, missions, and assets into the CBP Office of Border Patrol. Fiscal year 2004 AMO financial results have been reclassified in the accompanying financial statements for comparative purposes to conform with the fiscal year 2005 presentation.

Beginning fiscal year 2005, ICE assumed the financial management functions previously provided to FPS by the General Services Administration, and USCG assumed the financial management functions of TSA and FAM.

On July, 13, 2005, the DHS Secretary announced details of a realignment of the Department to increase its ability to prepare, prevent, and respond to terrorist attacks and other emergencies. The statutory authority of the HSA provides certain flexibility for the Secretary of DHS to establish, consolidate, alter or discontinue organizational units within the Department. The mechanism for implementing these changes is a notification to Congress, required under Section 872 of the HSA, allowing for the changes to take effect after 60 days. Other proposed changes require legislative action. Proposed changes impacting several Directorates including BTS, IAIP and ERP are not scheduled to take place until fiscal year 2006, pending congressional approval.

## **B. Basis of Accounting and Presentation**

The financial statements have been prepared from the accounting records of the Department and its components in conformity with accounting principles generally accepted in the United States, and the Office of Management and Budget (OMB) Circular A-136, *Financial Reporting Requirements* (Circular A-136). Accounting principles generally accepted for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB), the official accounting standards-setting body of the Federal government.

These financial statements are prepared pursuant to the *DHS Accountability Act and Accountability of Tax Dollars Act* (applies to fiscal year 2004) and *Chief Financial Officers Act*. These financial statements consist of the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, the Consolidated Statement of Changes in Net Position, the Combined Statement of Budgetary Resources, the Consolidated Statement of Financing and the Statement of Custodial Activity as of and for the years ended September 30, 2005 and 2004.

The Department's financial statements reflect the reporting of component activities including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed on behalf of the Federal government and others (CBP has the authority to assess and collect duties, taxes and fees for the governments of Puerto Rico and the U.S. Virgin Islands).

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenues are recorded when earned and expenses are recognized when a liability is incurred, regardless of when cash is exchanged. The Combined Statement of Budgetary Resources facilitates compliance with legal constraints and the use of Federal funds. Obligations are recognized when new orders are placed, contracts are awarded and services are received, which will require payments during the same or future periods. The Consolidated Statement of Financing reconciles the net cost of operations with the budgetary resources. Non-entity revenue and refunds are reported on the Statement of Custodial Activity using a modified cash basis. With this method, revenues from cash collections are reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Intragovernmental assets and liabilities result from activity with other Federal agencies. All other assets and liabilities result from activity with parties outside the Federal government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenues are collections or accruals of revenue from other Federal agencies. Intragovernmental costs are payments or

accruals to other Federal agencies. Transactions and balances among the Department's components have been eliminated from the Consolidated Balance Sheet, the Consolidated Statement of Net Cost, and the Consolidated Statement of Changes in Net Position. As provided by OMB Circular A-136, the Statement of Budgetary Resources is presented on a combined basis; therefore, intradepartmental transactions and balances have not been eliminated from this statement. In accordance with OMB Circular A-136, intradepartmental transactions and balances have been eliminated from all amounts on the Consolidated Statement of Financing, except for obligations incurred and spending authority from offsetting collections and adjustments, which are presented on a combined basis.

The Consolidated Statement of Net Cost no longer separates intragovernmental and public costs and revenues on the face of the statement. These separate costs and revenues are displayed in Note 23. Within this disclosure, intragovernmental costs (exchange transactions made between two reporting entities within the Federal government) are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-Federal entity). Intragovernmental exchange revenue (exchange transactions made between two reporting entities within the Federal government) are disclosed separately from exchange revenue with the public (exchange transactions made between the reporting entity and a non-Federal entity). The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. For example, with "exchange revenue with the public," the buyer of the goods or services is a non-Federal entity. With "intragovernmental costs," the buyer and seller are both Federal entities. If a Federal entity purchases goods or services from another Federal entity and sells them to the public, the exchange revenue would be classified as "with the public," but the related costs would be classified as "intragovernmental." The purpose of this classification is to enable the Federal government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

While these financial statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of a sovereign entity, that liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity.

### **C. Entity Revenue and Financing Sources**

The Department receives the majority of funding needed to support its programs through Congressional appropriations. The Department receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange revenues, non-exchange revenues and transfers-in.

Appropriations are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the goods or services are provided by the Department. Prices for goods and services sold to the public are based on recovery of full cost or are set at a market price. Reimbursable work between Federal appropriations is subject to

the *Economy Act (31 United States Code (U.S.C.) 1535)* or other statutes authorizing reimbursement. Prices for goods and services sold to other Federal government agencies are generally limited to the recovery of direct cost.

Exchange revenues are recognized when earned; i.e., goods have been delivered or services have been rendered. Non-exchange revenues are recognized when a specifically identifiable, legally enforceable claim to resources arises, and to the extent that collection is probable and the amount is reasonably estimable. Non-exchange revenues consist primarily of user fees collected by CBP to off-set certain costs of operations. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Consolidated Statement of Changes in Net Position during the period in which the donations and transfers occurred.

Fees for flood mitigation products and services, such as insurance provided through FEMA's National Flood Insurance Program (NFIP), are established at rates necessary to sustain a self-supporting program. NFIP premium revenues are recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums reserved to provide for the remaining period of insurance coverage.

Exchange revenue for TSA consists of security fees assessed on the public and air carriers pursuant to PL 107-71, the Aviation and Transportation Security Act.

USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration, nationality and citizenship benefits. Revenue associated with the application fees received is deferred and not considered earned until the application is adjudicated.

### **Imputed Financing Sources**

In certain instances, operating costs of DHS are paid out of funds appropriated to other Federal agencies. For example, the Office of Personnel Management (OPM), by law, pays certain costs of retirement programs, and certain legal judgments against DHS are paid from a Judgment Fund maintained by the Department of the Treasury. When costs that are identifiable to DHS and directly attributable to DHS operations are paid by other agencies, DHS recognizes these amounts as operating expenses. DHS also recognizes an imputed financing source on the Consolidated Statement of Changes in Net Position to indicate the funding of DHS operations by other Federal agencies.

Imputed intradepartmental costs are the un-reimbursed portion of the full costs of goods and services received by the Department or a component from a providing component that is part of DHS. DHS identifies intra-entity costs that meet the criteria for recognition (materiality, significance to the entity, directness of the relationship to entity operations and identifiability) that are not fully reimbursed by the receiving component and recognizes them at full cost. To accomplish this recognition, the receiving component recognizes an imputed financing source for the difference between the actual payment, if any, and the full cost. In preparation of the financial statements, these costs and imputed financing sources have been eliminated in the process of consolidation.

### **D. Non-Entity Assets, Revenue and Disbursements**

Non-entity assets are held by the Department but are not available for use by the Department. Non-



entity Fund Balance with Treasury represents funds available to pay refunds and drawback claims of duties, taxes and fees; and other non-entity amounts to be distributed to the Treasury General Fund and other Federal agencies in the future.

Non-entity revenue reported on the Department's Statement of Custodial Activity include duties, excise taxes, and various non-exchange fees collected by CBP and USCIS that are subsequently remitted to Treasury's General Fund or to other Federal agencies. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. At the time an importer's merchandise is brought into the United States, the importer is required to file entry documents. Generally, within ten working days after release of the merchandise into the United States commerce, the importer is to submit an entry document with payment of estimated duties, taxes, and fees. Non-entity tax and trade accounts receivables, custodial revenue, and disposition of revenue is recognized when CBP is entitled to collect duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity on behalf of the Federal Government that have been established as a specifically identifiable, legally enforceable claim and remain uncollected as of year-end. These revenue collections primarily result from current fiscal year activities. Generally, CBP records an equal and offsetting liability due to the Treasury General Fund for amounts recognized as non-entity tax and trade receivable and custodial revenue. CBP accrues an estimate of duties, taxes and fees related to commerce released prior to year-end where receipt of payment is anticipated subsequent to year-end. Application fees collected by USCIS for nonimmigrant petitions are recorded as deferred revenue at the time of collection, and the revenue is recognized as the petitions are adjudicated.

The significant types of non-entity accounts receivable (custodial revenues as presented in the Statement of Custodial Activity) are described below.

- **Duties:** amounts collected on imported goods and other miscellaneous taxes collected on behalf of the Federal government.
- **Excise taxes:** amounts collected on imported distilled spirits, wines and tobacco products.
- **User fees:** amounts designed to maintain United States harbors and to defray the cost of other miscellaneous service programs. User fees include application fees collected from employers sponsoring nonimmigrant petitions.
- **Fines and penalties:** amounts collected for violations of laws and regulations.
- **Refunds:** amounts of duties, taxes and fees previously paid by an importer/exporter. Refunds include drawback remittance paid when imported merchandise, for which duty was previously paid, is exported from the United States.

Duties, user fees, fines and penalties are assessed pursuant to the provisions of Title 19 United States Code (U.S.C.); Immigration fees under Title 8 U.S.C., and; Excise taxes under Title 26 U.S.C. CBP also enforces over 400 laws and regulations some of which require the collection of fees or the imposition of fines and penalties pursuant to other Titles within the U.S.C. or Code of Federal Regulations (C.F.R.).

Non-entity receivables are presented net of amounts deemed uncollectible. CBP tracks and enforces payment of estimated duties, taxes and fees receivable by establishing a liquidated damage case that generally results in fines and penalties receivable. A fine or penalty, including interest on past due



balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on past experience in resolving disputed assessments, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources, such as sureties and an analysis of aged receivable activity. CBP regulations allow importers to dispute the assessment of duties, taxes and fees. Receivables related to disputed assessments are not recorded until the protest period expires or a protest decision is rendered in CBP's favor.

Refunds and drawback of duties, taxes and fees are recognized when payment is made. A permanent, indefinite appropriation is used to fund the disbursement of refunds and drawbacks. Disbursements are recorded as a decrease in the amount Transferred to Federal Entities as reported on the Statement of Custodial Activity. An accrual adjustment is recorded on the Statement of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts and refunds payable at year-end.

#### **E. Fund Balance with Treasury, Cash and Other Monetary Assets**

Entity Fund Balance with Treasury amounts are primarily appropriated, revolving, trust, deposit, receipt and special fund amounts remaining as of the fiscal year-end from which the Department is authorized to make expenditures and pay liabilities resulting from operational activity, except as restricted by law. Except for small amounts within EP&R, the Department does not maintain cash in commercial bank accounts. Certain receipts are processed by commercial banks for deposit into individual accounts maintained at the U.S. Treasury. The Department's cash and other monetary assets primarily consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence and seized cash and monetary instruments. Cash and other monetary assets are presented as a component of other assets in the accompanying Consolidated Balance Sheet.

#### **F. Investments, Net**

Investments consist of United States government non-marketable Treasury securities and are reported at cost or amortized cost net of premiums or discounts. The Bureau of Public Debt (BPD) manages certain trust funds for the Department, including the USCG Oil Spill Liability Trust Fund. Premiums or discounts are amortized into interest income over the terms of the investment using the effective interest method. No provision is made for unrealized gains or losses on these securities because it is the Department's intent to hold these investments to maturity.

#### **G. Advances and Prepayments**

Intragovernmental advances consist primarily of EP&R's disaster recovery and assistance grants to other Federal agencies tasked with mission assignments. Advances are expensed as they are used by grant recipients. At year-end, the amount of grant funding unexpended is estimated based on cash transactions reported by the grant administrator used by EP&R. In accordance with OMB Circular A-110, the Department provides advance funds to grant recipients to incur expenses related to the approved grant. Advances are made within the amount of the total grant obligation.

Advances and Prepayments to the public, presented as a component of other assets in the accompanying Consolidated Balance Sheet, consist primarily of EP&R and SLGCP disaster recovery and assistance grants to states and other grants. The largest category is Emergency Management Performance

Grants, a consolidation of grant programs that supports state and local emergency management staffs and insurance policy acquisition costs. Insurance policy acquisition costs include commissions incurred at policy issuance. Commissions are amortized over the period in which the related premiums are earned, generally one to three years.

## **H. Accounts Receivable, Net**

Accounts receivable represent amounts owed to the Department by other Federal agencies and the public. Intragovernmental accounts receivable reported as a component of other intragovernmental assets on the Consolidated Balance Sheet generally arise from the provision of goods and services to other Federal agencies and are expected to be fully collected.

Public accounts receivable consist of amounts due to CBP from commercial air and sea vessel carriers for immigration user fees, 1931 Act overtime services, and breached bonds; reimbursable services and user fees collected and interest assessed by CBP; premiums and restitution due to EP&R from Write Your Own (WYO) insurance companies participating in EP&R's Federal Insurance and Mitigation Administration flood insurance program and amounts due from insurance policy holders; amounts due to the USCG's Oil Spill Liability Trust Fund to recover costs incurred to respond to oil pollution incidents and to collect civil fines and penalties from parties responsible for oil spills recognized when the claim arises; and security fees assessed by TSA on the public and air carriers. Public accounts receivable are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analysis of past due receivables and historical collection experience. Interest due on past due receivables is fully reserved until collected.

## **I. Credit Program Receivables, Net**

EP&R operates the Community Disaster Loan program to support any local government which has suffered a substantial loss of tax and other revenues as a result of a major disaster and which demonstrates a need for Federal financial assistance in order to perform its governmental functions. Under the program, EP&R transacts direct loans to local governments who meet statutorily set eligibility criteria. Credit program receivables consist of such loans and are recorded as other assets in the accompanying Consolidated Balance Sheet. Loans are accounted for as receivables as funds are disbursed.

Post 1991 obligated direct loans and the resulting receivables are governed by the *Federal Credit Reform Act of 1990 (FCRA)*. Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are an estimated long-term cost to the United States Government for its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included. Subsidy costs can arise from interest rate differentials, interest subsidies, delinquencies and defaults, and other cash flows. EP&R calculates the subsidy costs based on a subsidy calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated cash inflows less cash outflows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end.

## **J. Operating Materials, Supplies, and Inventory, Net**

Operating materials and supplies (OM&S) are primarily consumed during normal operations to service USCG, and, to a lesser extent, CBP vessels and aircraft. OM&S are valued based on a weighted moving average method or on actual prices paid. OM&S are expensed when consumed or issued for use. Excess, obsolete, and unserviceable OM&S are stated at net realizable value net of an allowance, which is based on the condition of various asset categories, as well as USCG's and CBP's historical experience with using and disposing of such assets.

Inventories consist primarily of USCG Supply Fund's uniform clothing, subsistence provisions, retail stores, general stores, technical material and fuel, and USCG Yard Fund's ship repair and general inventory. Inventories on hand at year-end are stated at cost using standard price/specific identification, last acquisition price, or weighted average cost methods, which approximates historical cost. Revenue on inventory sales and associated cost of goods sold are recorded when merchandise is sold to the end user. USCG's inventory is restricted to sales within the USCG, and is not available for sale to the public or other government agencies.

## **K. Seized and Forfeited Property**

Prohibited seized property results primarily from CBP criminal investigations and passenger/cargo processing. Seized property is not considered an asset of the Department and is not reported as such in the Department's financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items are determined; i.e., judicially or administratively forfeited or returned to the entity from which it was seized. Non-prohibited seized property, including non-cash monetary instruments, real property and tangible personal property of others in the actual or constructive possession of the Department will be transferred to the Treasury Forfeiture Fund and is not presented in the accompanying consolidated financial statements of the Department.

Forfeited property is seized property for which the title has passed to the United States government. However, prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by CBP until disposed of or destroyed. In accordance with Statement of Federal Financial Accounting Standard (SFFAS) No. 3, *Accounting for Inventory and Related Property*, analyses of changes in seized and forfeited property of prohibited items are disclosed in note 10.

CBP will take into custody, without risk or expense, merchandise termed "general order property," which for various reasons cannot legally enter into the commerce of the United States. CBP's sole responsibility with general order property is to ensure the property does not enter the nation's commerce. If general order property remains in CBP custody for a prescribed period of time, without payment of all estimated duties, storage and other charges, the property is considered unclaimed and abandoned and can be sold by CBP at public auction or donated to charity (if not prohibited by law). Auction sales revenue in excess of charges associated with the sale or storage of the item is remitted to the Treasury General Fund. In some cases, CBP incurs charges prior to the sale and funds these costs from entity appropriations. Regulations permit CBP to offset these costs of sale before returning excess amounts to Treasury.

USSS seizes property for violation of laws it is authorized to enforce. Seized and forfeited property result principally from investigations of credit card fraud, bank fraud, wire fraud, computer fraud and counterfeiting. The items seized by USSS include genuine and counterfeit currency, monetary instruments (cashier's checks, money orders), real property and tangible personal property of others. Although the property is not legally owned by USSS until judicially or administratively forfeited, USSS does have a fiduciary responsibility for such property.

## **L. Property, Plant, and Equipment, Net**

The Department's property, plant, and equipment (PP&E) consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology and other equipment. PP&E is recorded at cost. The Department capitalizes acquisitions of PP&E when the cost equals or exceeds an established threshold and has a useful life of two years or more. Costs for construction projects are recorded as construction-in-progress until completed, and are valued at actual (direct) costs, plus applied overhead and other indirect costs. In cases where historical cost information was not maintained, PP&E is capitalized using an estimated cost based on the cost of similar assets at the time of acquisition or the current cost of similar assets discounted for inflation since the time of acquisition. The Department owns some of the buildings in which components operate. Other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

Internal use software includes purchased commercial off-the-shelf software (COTS), contractor developed software, and internally developed software. For COTS software, the capitalized costs include the amount paid to the vendor for the software. For contractor developed software the capitalized costs include the amount paid to a contractor to design, program, install and implement the software. Capitalized costs for internally developed software include the full cost (direct and indirect) incurred during the software development phase.

Multi-use heritage assets consist primarily of buildings and structures owned by CBP and USCG, and are included in general PP&E on the Consolidated Balance Sheet. The physical quantity information for the multi-use heritage assets is included in the Required Supplementary Stewardship Information for heritage assets.

The schedule of capitalization thresholds shown below is a summary of the range of capitalization rules in place for the 22 legacy agencies that comprise the Department at inception. The DHS policy, Management Directive No. 1120, allows these agencies to continue using their legacy rules until a more comprehensive approach is developed that takes into account the vast differences across components in size and asset usage.

## CAPITALIZATION THRESHOLD

The ranges of capitalization thresholds used by components, by primary asset category, are as follows:

Asset Description	Capitalization Threshold
Land	Regardless of cost to \$100,000
Buildings and improvement	\$25,000 to \$200,000
Equipment and capital leases	\$5,000 to \$50,000
Software	\$200,000 to \$750,000

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Land is not depreciated. Depreciation on buildings and equipment leased by GSA is not recognized by the Department. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. The estimated useful life is 3 to 10 years for calculating amortization of software using the straight-line method. Amortization of capitalized software begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

### M. Liabilities

Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Since the Department is a component of the United States Government, a sovereign entity, the Department's liabilities cannot be liquidated without legislation that provides resources or an appropriation. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, Congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. The United States Government, acting in its sovereign capacity, can abrogate liabilities of the Department arising from other than contracts.

### N. Contingent Legal Liabilities and Environmental Cleanup Costs

#### Contingent Legal Liabilities

Certain conditions exist as of the date the financial statements are issued, which may result in a loss contingency to the government, but which will only be resolved when one or more future events occur or fail to occur. DHS management and general legal counsel assess such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing contingencies related to legal proceedings that are pending against DHS, or unasserted claims that may result in such pro-

ceedings, general legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the amounts of relief sought or expected to be brought therein.

If the assessment of the loss contingency indicates that it is probable that a material liability has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued in the financial statements. If the assessment indicates that a potentially material contingent liability is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material is disclosed.

Contingent liabilities considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee would be disclosed.

### **Environmental Cleanup Costs**

Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics may pose a substantial present or potential hazard to human health or the environment. Cleanup costs for general PP&E placed into service in fiscal year 1998 and thereafter may be allocated to operating periods based on the physical capacity of the PP&E or accrued over the useful life if physical capacity is not applicable or estimable. Expense recognition shall begin on the date that the PP&E is placed into service. Regardless of the method the result should be the accumulation of total cleanup costs liability at the time when the PP&E ceases operation.

For all PP&E in service as of October 1, 1997, DHS recognizes the estimated total (ultimate) cleanup costs associated with the PP&E at the time the cleanup requirement is identified. DHS will not prorate a cleanup cost over the life of these PP&E. However, the estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, plans, or technology. The applicable costs of decommissioning DHS' existing and future vessels will be considered cleanup costs.

### **O. Grants Liability**

EP&R, SLGCP, and TSA award grants and cooperative agreements to Federal, state and local governments, universities, non-profit organizations, and private sector companies for the purpose of building capacity to respond to disasters and emergencies, conduct research into preparedness, enhance and ensure the security of passenger and cargo transportation by air, land, or sea, and other Department-related activities. EP&R estimates a year-end grant accrual representing the amounts payable to grantees, using historical disbursement patterns over a period of 20 quarters to predict unreported grantee expenditures. The SLGCP and TSA grant liability accrual is estimated using known reported expenditures reported by grantees and the estimated daily expenditure rate for the period subsequent to the latest grantee submission in relation to the cumulative grant amount. Grants issued by TSA through September 30, 2004 are maintained jointly by TSA and SLGCP. Grants liabilities are combined with accounts payable to the public in the accompanying Consolidated Balance Sheet.



## **P. Claims and Claims Settlement Liabilities**

EP&R administers the National Flood Insurance Program (NFIP) through sale or continuation-in-force of insurance in communities that enact and enforce appropriate flood plain management measures. Claims and claims settlement liability represents an estimate of NFIP losses that are unpaid at the balance sheet date and is based on the loss and loss adjustment expense factors inherent in the NFIP insurance underwriting operations experience and expectations. Estimation factors used by the insurance underwriting operations reflect current case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are continually reviewed, and adjustments, reflected in current operations, are made as deemed necessary. Although the insurance underwriting operations believes the liability for unpaid losses and loss adjustment expenses is reasonable and adequate in the circumstances, the insurance underwriting operations' actual incurred losses and loss adjustment expenses may not conform to the assumptions inherent in the estimation of the liability. Accordingly, the ultimate settlement of losses and the related loss adjustment expenses may vary from the amount included in the financial statements.

## **Q. Debt and Borrowing Authority**

Debt is reported within other intragovernmental liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations. NFIP loan and interest payments are financed by flood premiums and map collection fees. Additional funding for NFIP may be obtained through Treasury borrowing authority of \$1.5 billion. DADLP annually requests borrowing authority to cover the principal amount of direct loans not to exceed \$25 million less the subsidy due from the program account. DADLP borrowing authority is for EP&R "State Share Loans". Borrowing authority for Community Disaster Loans is requested on an "as needed basis".

## **R. Annual, Sick and Other Accrued Leave**

Earned annual and other vested compensatory leave is an accrued liability. The liability is reduced as leave is taken. At year-end, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances, and are reported within accrued payroll and benefits in the Consolidated Balance Sheet. Sick leave and other types of non-vested leave are not earned benefits. Accordingly, non-vested leave is expensed when used.

## **S. Workers' Compensation**

A liability is recorded for accrued and estimated future payments to be made for workers' compensation pursuant to the *Federal Employees' Compensation Act* (FECA). The accrued liability is presented as a component of intragovernmental other liabilities as it is payable to the U. S. Department of Labor (DOL), and the actuarial liability is presented within accrued payroll and benefits in the accompanying Consolidated Balance Sheet. The FECA program is administered by the DOL, which initially pays valid claims and subsequently seeks reimbursement from Federal agencies employing the claimants. Reimbursement to DOL on payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place.

Additionally, a liability due to the public is recorded that includes the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases. The liability is determined using an actuarial method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. The Department allocates the actuarial liability to its components based on payment history provided by DOL. The accrued liability is not covered by budgetary resources and will require future funding.

## **T. Military Service and Other Retirement Benefits**

### **DHS and Component Civilian Workforce Pension and Other Benefits**

The Department recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 7 percent of base pay for regular CSRS employees, and 7.5 percent of base pay for law enforcement agents. The majority of employees hired after December 31, 1983 are covered by the Federal Employees Retirement System (FERS) and Social Security. For the FERS basic annuity benefit the Department contributes 11.2 percent of base pay for regular FERS employees and 23.8 percent for law enforcement agents. A primary feature of FERS is that it also offers a defined contribution plan to which the Department automatically contributes 1 percent of base pay and matches employee contributions up to an additional 4 percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM rather than the Department reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department is required to report the full annual cost of providing these other retirement benefits (ORB) for its retired employees as well as reporting contributions made for active employees. In addition, the Department recognizes an expense and liability for other post employment benefits (OPEB), which includes all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries and covered dependents.

The difference between the full annual cost of CSRS or FERS retirement, ORB and OPEB benefits and the amount paid by the Department is recorded as an imputed cost and off-setting imputed financing source in the accompanying Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, and Consolidated Statement of Financing.

### **USCG – Military Retirement System Liability**

The USCG Military Retirement System (MRS) is a defined benefit plan that covers both retirement pay and health care benefits for all active duty and reserve military members of the USCG. The plan is funded through annual appropriations and, as such, is a pay-as-you-go system. The unfunded accrued liability reported on the accompanying Consolidated Balance Sheet is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of the future cost of benefits. Current period expense is computed using the aggre-



gate entry age normal actuarial cost method.

A portion of the accrued MRS liability is for the health care of non-Medicare eligible retirees/survivors. Effective October 1, 2002, USCG transferred its liability for the health care of Medicare eligible retirees/survivors to the Department of Defense (DoD) Medicare-Eligible Retiree Health Care Fund (the Fund), which was established in order to finance the health care benefits for the Medicare-eligible beneficiaries of all DoD and non-DoD uniformed services. DoD is the administrative entity and in accordance with SFFAS No. 5, is required to recognize the liability on the Fund's financial statements. The USCG makes monthly payments to the Fund for current active duty members. Benefits for USCG members who retired prior to the establishment of the Fund are provided by payments from the Treasury to the Fund. The future cost and liability of the Fund is determined using claim factors and claims cost data developed by the DoD, adjusted for USCG retiree and actual claims experience. The USCG uses the current year actual costs to project costs for all future years.

#### **USCG – Post-employment Military Travel Benefit**

USCG uniformed service members are entitled to travel and transportation allowances for travel performed or to be performed under orders, without regard to the comparative costs of the various modes of transportation. These allowances, upon separation from the service, include the temporary disability retired list placement, release from active duty, retirement and entitlement for travel from the member's last duty station to home or the place from which the member was called or ordered to active duty, whether or not the member is or will be an active member of a uniformed service at the time the travel is or will be performed.

USCG recognizes an expense and a liability for this OPEB when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The OPEB liability is measured at the present value of future payments, which requires the USCG to estimate the amount and timing of future payments, and to discount the future outflow using the Treasury borrowing rate for securities of similar maturity to the period over which the payments are made.

#### **USSS – Uniformed Division and Special Agent Pension Liability**

The District of Columbia Police and Fireman's Retirement System (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents. The DC Pension Plan makes benefit payments to retirees and/or their beneficiaries. The USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. The DC Pension Plan is funded through annual appropriations and, as such, is a pay-as-you-go system. The unfunded accrued liability reported on the accompanying Consolidated Balance Sheet is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of future cost of benefits. Current period expense is computed using the aggregate cost method.

#### **U. Use of Estimates**

Management has made certain estimates and assumptions in the reporting of assets, liabilities, revenues, expenses, obligations incurred, spending authority from offsetting collections and note disclosures in the consolidated financial statements. Actual results could differ from these estimates. Significant estimates include: the allocation of trust fund receipts, year-end accruals of accounts and grants

payable, contingent legal and environmental liabilities, accrued workers' compensation, allowance for doubtful accounts receivable, allowances for obsolete inventory and OM&S balances, allocations of indirect common costs to construction-in-progress, depreciation, subsidy re-estimates, deferred revenues, NFIP claims and settlements, actuarial workers compensation assumptions, MRS and other pension, retirement and post-retirement benefit assumptions, allowances for doubtful duties, fines, and penalties, and certain non-entity receivables and payables related to custodial activities. Certain accounts payable balances are estimated based on current payments that relate to prior periods or a current assessment of services/products received but not yet paid.

## **V. Taxes**

The Department, as a Federal agency, is not subject to Federal, state or local income taxes and accordingly, no provision for income taxes has been recorded in the accompanying consolidated financial statements.

## **W. Reclassifications**

Certain fiscal year 2004 balances have been reclassified for consistent disclosures with 2005 balances, including transfer of the FPS from BTS to ICE, the transfer of the Air and Marine Interdiction program from ICE to CBP, and realignment of SLGCP from BTS Directorate to Management Directorate. Some Grants were realigned between EP&R and TSA and the Management Directorate (which includes SLGCP). In addition, taxes, duties, and receivables were combined by entity and non-entity.

## 2. NON-ENTITY ASSETS

Non-entity assets at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Intragovernmental:		
Fund Balance with Treasury	\$5,067	\$3,342
Receivables Due From Treasury (note 12)	144	170
Total Intragovernmental	5,211	3,512
Public:		
Tax, Duties, and Trade Receivables, Net (note 7)	1,349	1,195
Other	63	36
Total Public	1,412	1,231
Total Non-Entity Assets	6,623	4,743
Total Entity Assets	107,883	46,063
<b>Total Assets</b>	<b>\$114,506</b>	<b>\$50,806</b>

Non-entity fund balance with Treasury consists of special and deposit funds, permanent and indefinite appropriations and miscellaneous receipts that are available to pay non-entity liabilities presented on the Consolidated Balance Sheet. Non-entity fund balance with Treasury at September 30, 2005 and 2004, includes (in deposit fund) approximately \$4.7 billion and \$2.9 billion of duties collected by CBP on imports of Canadian softwood lumber and \$316 million and \$375 million (in special fund) for Injured Domestic Industries (IDI) at September 30, 2005 and 2004, respectively. These assets off-set accrued liabilities at September 30, 2005 and 2004 (see note 19).

Non-entity receivables due from Treasury represent an estimate of duty, tax and/or fee refunds and drawbacks that will be reimbursed by a permanent and indefinite appropriation account and will be used to pay estimated duty refunds and drawbacks payable of \$118 million and \$132 million at September 30, 2005 and 2004, respectively (see note 19). Duties and taxes receivable from public represents amounts due from importers for goods and merchandise imported to the United States, and upon collection, will be available to pay the accrued intragovernmental liability due to the Treasury General Fund, which equaled \$1.4 billion and \$1.3 billion at September 30, 2005 and 2004, respectively (see notes 7 and 14).

### 3. FUND BALANCE WITH TREASURY

#### A. Fund Balance with Treasury

Fund Balance with Treasury at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Appropriated Funds	\$89,494	\$27,587
Trust Funds	39	48
Revolving, Liquidating, and Working Capital Funds	100	435
Special Funds	2,455	2,131
Deposit Funds	4,916	3,235
<b>Total Fund Balance with Treasury</b>	<b>\$97,004</b>	<b>\$33,436</b>

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department and its components. Appropriated funds included clearing funds totaling \$106 million and a \$457 million at September 30, 2005 and 2004, which represent reconciling differences with Treasury balances. The significant increase in appropriated funds is due to the Disaster Relief Fund receiving two emergency supplemental appropriations in September 2005 for Hurricane Katrina. For further details, see Other Accompanying Information, Effects of Hurricanes Katrina and Rita.

Trust funds include both receipt accounts and expenditure accounts that are designated by law as a trust fund. Trust fund receipts are used for specific purposes, generally to offset the cost of expanding border and port enforcement activities, oil spill related claims and activities, or to hold CIS bond receipts.

Revolving funds are used for continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. The Working Capital Fund is a fee-for-service fund established to support operations of Department component bureaus. Also included are the liquidating and financing funds for credit reform and the national flood insurance fund of \$25 million and \$321 million at September 30, 2005 and 2004, respectively.

Special funds are receipts and/or off-setting receipt funds earmarked for specific purposes including the disbursement of non-entity monies received in connection with antidumping and countervailing duty orders due to qualifying IDI of \$316 million and \$375 million at September 30, 2005 and 2004, respectively. The Department also has special funds for immigration user fees of \$179 million and \$154 million at September 30, 2005 and 2004, respectively; CBP user fees of \$741 million and \$730 million at September 30, 2005 and 2004, respectively; immigration examination fees of \$777 million and \$715 million at September 30, 2005 and 2004 respectively; as well as inspection fees, flood map modernization subsidy, off-set and refund transfers.

Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections that do not belong to the Federal Government and for which final disposition has not been determined at year-end, including \$4.7 billion and \$2.9 billion of duties collected on imports of Canadian softwood lumber at September 30, 2005 and 2004, respectively (see Notes 2 and 19).

**B. Status of Fund Balance with Treasury**

The status of Fund Balance with Treasury at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Unobligated Balances:		
Available	\$51,882	\$5,718
Unavailable	5,177	1,638
Obligated Balance Not Yet Disbursed	38,443	25,802
Subtotal	95,502	33,158
Adjustments for:		
Receipt, Clearing, and Deposit Funds	5,026	3,466
Borrowing Authority	(3,301)	(1,500)
Investments	(729)	(1,612)
Receivable Transfers and Imprest Fund	(79)	(76)
Receipt unavailable for obligation	585	-
<b>Total Status of Fund Balance with Treasury</b>	<b>\$97,004</b>	<b>\$33,436</b>

Adjustments are made to reconcile the budgetary status to Fund Balance with Treasury for the following reasons:

- Receipt, clearing and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2005 and 2004. Included in adjustments for deposit funds are restricted balances of \$4.7 billion and \$2.9 billion for Canadian softwood lumber at September 30, 2005 and 2004, respectively, of non-entity funds, and receipts that are not available for obligation.
- Borrowing authority is in budgetary status for use by EP&R for disaster relief purposes and Community disaster loans.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to investments.
- Receivable transfers of currently invested balances increases the budget authority at the time the transfer is realized and obligations may be incurred before the actual transfer of funds.
- Imprest funds represent monies moved from fund balance with Treasury to imprest funds with no change in the budgetary status.
- Receipts immediately upon collection are unavailable for obligation. The receipts are not available for obligation until a specified time in the future.

Portions of the unobligated balances available, unavailable and obligations balance not yet disbursed contains CBP's user fees of \$741 million and \$730 million (at September 30, 2005 and 2004), which is restricted by law in its use to offset costs incurred by CBP until authority is granted through appropriations acts.

Portions of the unobligated balance unavailable includes amounts appropriated in prior fiscal years that are not available to fund new obligations. However, it can be used for upward and downward adjustments for existing obligations in future years.

During September 2005, the Disaster Relief Fund received two supplemental appropriations totaling \$60 billion for Hurricane Katrina. As of September 30, 2005, this fund has an unobligated balance available of \$46.4 billion. For further details, see Other Accompanying Information, Effects of Hurricanes Katrina and Rita.

The obligated not yet disbursed balance represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made. Part of this balance contains obligations from the disaster relief fund of \$16.8 billion and \$6.4 billion at September 30, 2005 and 2004, respectively.

## 4. INVESTMENTS, NET

Investments at September 30, consisted of the following (in millions):

Type of Investment:	2005 (unaudited)	2004 (unaudited)
<i>U.S. Treasury Securities:</i>		
USCG – Non-Marketable, Par Value	\$736	\$839
EP&R – Non-Marketable, Market-Based	2	786
<b>Total Intragovernmental Investments, Net</b>	<b>\$738</b>	<b>\$1,625</b>

Unexpended funds in the USCG Oil Spill Liability Trust Fund (OSLTF) and the gift fund are invested by the U.S. Treasury – Bureau of Public Debt in U.S. government securities and are purchased and re-deemed at par. Interest and principal on invested balances in the USCG's oil spill fund are considered investment authority and are available for use by the USCG to offset the cost of oil spill cleanup, payment of environmental claims against the fund and for specific funding of cleanup related operations.

EP&R maintains investments for the NFIP and the gifts and bequests fund. EP&R investments are restricted to Treasury bonds, bills, notes and overnight securities. EP&R's non-marketable, market-based investments balance at September 30, 2005 represents investments remaining in the gifts and bequests fund. Investments in NFIP were withdrawn in fiscal year 2005 to pay flood insurance claims for damages caused by four major hurricanes which occurred late in fiscal year 2004. The current EP&R investments portfolio consists principally of overnight securities, which have neither market value variances nor unamortized premium or discount.

Market value of all investments approximates cost and balances include applicable accrued interest.

## 5. ACCOUNTS RECEIVABLE, NET

Accounts Receivable with public at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Accounts Receivable	\$929	\$781
Allowance for Doubtful Accounts	(397)	(318)
<b>Net Accounts Receivable w/ Public</b>	<b>\$532</b>	<b>\$463</b>

Intragovernmental accounts receivable are presented as a component of other assets, and results from reimbursable work performed by USCG, ICE, EP&R, and CBP (see note 12). Accounts receivable with the public consists of amounts due to CBP, TSA, EP&R, USCG and ICE for overpayment of refunds, reimbursable services and user fees.

## 6. ADVANCES AND PREPAYMENTS

Intragovernmental advances and prepayments at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Disaster Relief Fund	\$2,726	\$2,718
Other	211	168
<b>Total Intragovernmental Advances and Prepayments</b>	<b>\$2,937</b>	<b>\$2,886</b>

Disaster relief fund (DRF) advances consists of EP&R's disaster assistance grants to other Federal agencies (principally the Department of Transportation) tasked with mission assignments that support state and local emergency management staffs and operations.

Advances and prepayments made to the public are presented as a component of other assets on the accompanying Consolidated Balance Sheets (see note 12).

## 7. TAX, DUTIES, AND TRADE RECEIVABLES, NET

Tax, duties and trade receivables at September 30, consisted of the following (in millions):

As of September 30, 2005 (unaudited):

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	\$1,207	(\$97)	\$1,110
Excise Taxes	88	(6)	82
User Fees	84	(1)	83
Fines/Penalties	1,116	(1,032)	84
Anti-Dumping/Countervailing Duties	217	(176)	41
<b>Total Tax, Duties, and Trade Receivables, Net</b>	<b>\$2,712</b>	<b>(\$1,312)</b>	<b>\$1,400</b>

As of September 30, 2004 (unaudited):

Receivables Category	Gross Receivables	Allowance	Total Net Receivables
Duties	\$1,127	(\$95)	\$1,032
Excise Taxes	73	(2)	71
User Fees	80	(1)	79
Fines/Penalties	798	(745)	53
Anti-Dumping/Countervailing Duties	180	(142)	38
<b>Total Tax, Duties, and Trade Receivables, Net</b>	<b>\$2,258</b>	<b>(\$985)</b>	<b>\$1,273</b>

When a violation of import/export law is discovered, a fine or penalty is established, typically for the full value of the merchandise. After receiving the notice of assessment, the importer or surety has a period of time to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, CBP records an allowance on fines and penalties of approximately 93 percent (94 percent at September 30, 2004) of the total assessment based on historical experience of fines and penalties mitigation and collection.



## 8. CREDIT PROGRAM RECEIVABLES, NET

All credit program activities and the related receivables of the Department relate to EP&R.

### A. Summary of Direct Loans to Non-Federal Borrowers at September 30 (in millions):

	2005 (unaudited)	2004 (unaudited)
	Loans Receivable, Net	Loans Receivable, Net
<b>Community Disaster Loans</b>	<b>\$ .5</b>	<b>\$6.8</b>

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

### B. Direct Loans Obligated Prior to Fiscal Year 1992 (Present Value Method, in millions):

Direct loans obligated prior to fiscal year 1992 have been fully collected during fiscal year 2004, and therefore no balances remained as of September 30, 2004 (unaudited).

### C. Direct Loans Obligated After FY 1991 (in millions):

At September 30, 2005 (unaudited):	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
<b>Community Disaster Loans</b>	<b>\$2.3</b>	<b>\$1.4</b>	<b>(\$3.2)</b>	<b>\$ .5</b>

  

At September 30, 2004 (unaudited):	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
<b>Community Disaster Loans</b>	<b>\$129.4</b>	<b>\$62.5</b>	<b>(\$185.1)</b>	<b>\$6.8</b>

The value of assets related to direct loans, net of allowance for subsidy cost, is included in other assets on the consolidated balance sheet.

### D. Total Amount of Direct Loans Disbursed, Post-1991: None.

### E. Subsidy Expense for Direct Loans (in millions):

	2005 (unaudited)	2004 (unaudited)
Subsidy Expense for New Direct Loans Disbursed	None	None
Modifications and Re-estimates (Prior reporting year)	\$4.5	None
<b>Total Direct Loan Subsidy Expense</b>	<b>\$4.5</b>	<b>None</b>

**F. Direct Loan Subsidy Rates**

The direct loan subsidy rates, by program, are as follows:

	2005 (unaudited)		2004 (unaudited)	
	Community Disaster Loans	State Share Loans	Community Disaster Loans	State Share Loans
Interest Subsidy Cost	3.72 %	(2.98) %	2.48 %	(2.40) %
Default Costs	- %	- %	- %	- %
Other	89.72 %	0.38 %	90.78 %	0.38 %

**G. Schedule for Reconciling Subsidy Cost Allowance Balances (in millions):**

	2005 (unaudited)	2004 (unaudited)
Beginning Balance of the Subsidy cost allowance	\$185.1	\$171
Adjustments:		
(a) Loans written off	(188.4)	(1.7)
(b) Subsidy allowance amortization	6.5	11.3
Ending balance of the subsidy cost allowance before reestimates	3.2	180.6
Add subsidy reestimate by component		
(a) Technical/default reestimate	-	4.5
<b>Ending balance of the subsidy cost allowance</b>	<b>\$3.2</b>	<b>\$185.1</b>

The amount of loans written off during fiscal year 2005 includes the cancellation of \$127 million (principal only) in loan to the government of the Virgin Islands.

**H. Administrative Expenses (in millions):**

	2005 (unaudited)	2004 (unaudited)
Community Disaster and State Share Loans	<b>\$ .4</b>	<b>\$ .5</b>

## 9. OPERATING MATERIALS, SUPPLIES, AND INVENTORY, NET

Operating materials and supplies (OM&S) and inventory, net at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
OM&S		
Items Held for Use	\$362	\$360
Items Held for Future Use	86	84
Excess, Obsolete and Unserviceable Items	7	7
Less: Allowance for Losses	(7)	(7)
Total OM&S, Net	<u>448</u>	<u>444</u>
Inventory		
Inventory Purchased for Resale	59	53
Less: Allowance for Losses	(1)	(1)
Total Inventory, Net	<u>58</u>	<u>52</u>
Total OM&S and Inventory, Net	<u><u>\$506</u></u>	<u><u>\$496</u></u>

## 10. PROHIBITED SEIZED PROPERTY

Prohibited seized property item counts, as of September 30, and activity for the fiscal years ended September 30, 2005 and 2004, are as follows:

2005						
Seizure Activity						
Seized Property:	Fiscal Year Ended September 30, 2005 (unaudited)					Seized Property:
Category	Balance October 1, 2004	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	2,176	444,751	-	(446,861)	436	502
Cocaine	144	31,818	-	(31,345)	(455)	162
Heroin	18	1,230	-	(1,225)	3	26
Firearms and Explosives (in number of items)	7,788	1,454	(5,798)	(1,364)	(59)	2,021
Counterfeit Currency (US/ Foreign, in number of items)	2,877,743	804,946	-	-	(328,629)	3,364,060
Pornography (in number of items)	133	213	(5)	(182)	(18)	141
Forfeiture Activity						
Forfeited Property:	Fiscal Year Ended September 30, 2005 (unaudited)					Forfeited Property:
Category	Balance October 1, 2004	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	98,657	446,861	(641)	(419,668)	(32,375)	92,834
Cocaine	17,348	31,345	(58)	(26,576)	(546)	21,513
Heroin	2,545	1,225	(1)	(1,664)	(1)	2,104
Firearms and Explosives (in number of items)	297	1,364	(1,307)	(14)	(64)	276
Pornography (in number of items)	37	182	-	(189)	9	39

2004

## Seizure Activity

Seized Property:	Fiscal Year Ended September 30, 2004 (unaudited)					Seized Property:
Category	Balance October 1, 2003	New Seizures	Remissions	New Forfeitures	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	331	560,809	-	(561,551)	2,587	2,176
Cocaine	153	36,632	-	(36,630)	(11)	144
Heroin	22	1,591	-	(1,597)	2	18
Firearms and Explosives (in number of items)	7,757	3,830	(1,112,180)	-	(199,964)	2,887,743
Counterfeit Currency (US/Foreign, in number of items)	2,853,395	1,346,492	(1,112,180)	-	(199,964)	2,887,743
Pornography (in number of items)	178	353	(5)	(367)		133

## Forfeiture Activity

Forfeited Property:	Fiscal Year Ended September 30, 2004 (unaudited)					Forfeited Property:
Category	Balance October 1, 2003	New Forfeitures	Transfers	Destroyed	Adjustments	September 30 Weight/Items
Illegal Drugs (in kilograms):						
Cannabis (marijuana)	113,531	561,551	(6,114)	(521,349)	(48,962)	98,657
Cocaine	16,970	36,630	(298)	(34,971)	(983)	17,348
Heroin	2,977	1,597	(8)	(13,980)	11,959	2,545
Firearms and Explosives (in number of items)	1,340	634	(1,699)	(39)	61	297
Pornography (in number of items)	80	367	-	(414)	4	37

This schedule is presented for material prohibited (non-valued) seized and forfeited property only. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Departments of Treasury or Justice Asset Forfeiture Funds or other Federal agencies. The ending balance for firearms includes only those seized items that can actually be used as firearms. Illegal drugs are presented in kilograms and a significant portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the packaging must be maintained for evidentiary purposes. Firearms, explosives and pornography are presented in number of items; and counterfeit currency is presented in number of bills.

USCG also seizes and takes temporary possession of small boats, equipment, contraband and other illegal drugs. USCG usually disposes of these properties within three days by transfer to CBP (who transfers non-prohibited seized property to the Treasury Forfeiture Fund), the Drug Enforcement Administration, or foreign governments, or by destroying it. Seized property in USCG possession at year-end is considered insignificant and therefore is not itemized and is not reported in the consolidated financial statements of the Department.

## 11. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment (PP&E), at September 30, consisted of the following (in millions):

As of September 30, 2005 (unaudited):	Service Life	Gross Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$63	\$ -	\$63
Improvements to Land	3-50 yrs	50	22	28
Construction in Progress	N/A	2,403	-	2,403
Buildings, Other Structures and Facilities	2-50 yrs	3,702	1,803	1,899
Equipment:				
ADP Equipment	3-5 yrs	212	98	114
Aircraft	10-35 yrs	2,318	1,288	1,030
Vessels	5-45 yrs	4,131	2,009	2,122
Vehicles	3-6 yrs	503	344	159
Other Equipment	2-30 yrs	3,459	1,701	1,758
Assets Under Capital Lease	2-20 yrs	81	26	55
Leasehold Improvements	3-50 yrs	280	76	204
Internal Use Software	3-10 yrs	481	250	231
Internal Use Software- in Development	N/A	404	-	404
<b>Total Property, Plant, and Equipment</b>		<b>\$18,087</b>	<b>\$7,617</b>	<b>\$10,470</b>

As of September 30, 2004 (unaudited):	Service Life	Gross Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$54	\$ -	\$54
Improvements to Land	3-50 yrs	23	10	13
Construction in Progress	N/A	1,570	-	1,570
Buildings, Other Structures and Facilities	2-50 yrs	3,556	1,697	1,859
Equipment:				
ADP Equipment	3-5 yrs	280	115	165
Aircraft	10-35 yrs	2,885	1,919	966
Vessels	5-45 yrs	4,045	1,843	2,202
Vehicles	3-6 yrs	484	311	173
Other Equipment	2-30 yrs	3,418	1,500	1,918
Assets Under Capital Lease	2-20 yrs	81	21	60
Leasehold Improvements	3-50 yrs	264	62	202
Internal Use Software	3-10 yrs	694	162	532
Internal Use Software- in Development	N/A	32	-	32
<b>Total Property, Plant, and Equipment</b>		<b>\$17,386</b>	<b>\$7,640</b>	<b>\$9,746</b>

## 12. OTHER ASSETS

Other assets at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Intragovernmental:		
Accounts Receivable (note 5)	\$217	\$311
Receivables Due From Treasury (note 2)	144	170
Total Intragovernmental	361	481
Public:		
Advances and Prepayments	480	356
Cash and Other Monetary Assets	78	87
Credit Program Receivables, Net (note 8)	-	7
Other	-	(50)
Total Public	558	400
<b>Total Other Assets</b>	<b>\$919</b>	<b>\$881</b>

Advances and prepayments with the public consist primarily of NFIP payments made by EP&R.

The negative \$50 million represents an allowance for subsidy which exceeds the amount due. This excess allowance was written off during the current fiscal year.



## 13. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Liabilities not covered by budgetary resources at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited) Restated
Intragovernmental:		
Accrued FECA Liability (Note 17)	\$358	\$240
Borrowings from U.S. Treasury (BPD)	226	8
Other	-	2
Total Intragovernmental	584	250
Public:		
Military Service and Other Retirement Benefits (Note 18)	29,021	26,502
Accrued Payroll and Benefits:		
Accrued Leave (Note 17)	729	663
Other Employment Related Liability (Note 17)	105	105
Actuarial FECA Liability (Note 17)	1,473	1,398
Claims and Claims Settlement Liabilities (Notes 15 and 30)	22,679	1,030
Other:		
Environmental Cleanup Costs (Note 21)	158	144
Contingent Liabilities (Note 21)	221	54
Capital Lease Liability (Note 20)	75	148
Total Public	54,461	30,044
Total Liabilities Not Covered by Budgetary Resources	\$55,045	\$30,294
Liabilities Covered by Budgetary Resources or Non-Entity Assets	14,700	12,025
<b>Total Liabilities</b>	<b>\$69,745</b>	<b>\$42,319</b>

The Department anticipates that the liabilities listed above will be funded from future budgetary resources when required. Budgetary resources are generally provided for unfunded leave when it is used.

## 14. DUE TO THE TREASURY GENERAL FUND

Amounts due to the Treasury General Fund of \$1.4 billion and \$1.3 billion, as of September 30, 2005 and 2004, respectively, represent duty, tax, and fee revenues collected by CBP to be remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations.

## 15. CLAIMS AND CLAIMS SETTLEMENT LIABILITIES

Claims and Claims Settlement Liabilities at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
National Flood Insurance Program	\$23,406	\$1,357
<i>Cerro Grande Fire Assistance Act</i>	27	60
<b>Total Claims and Claims Settlement Liabilities</b>	<b>\$23,433</b>	<b>\$1,417</b>

### A. National Flood Insurance Program (NFIP)

The NFIP liability for unpaid losses and related loss adjustment expenses and amounts paid for the year ended September 30, 2005 and 2004, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Beginning Balance	\$1,357	672
Incurred losses and increase estimated losses	25,407	1,505
Less: Amounts paid during current period	(3,358)	(820)
<b>Total NFIP Liability at September 30</b>	<b>\$23,406</b>	<b>\$1,357</b>

The increase in 'Incurred losses and increase estimated losses' was primarily due to hurricane Katrina which impacted the Gulf Coast in August 2005. The funded NFIP liability at September 30, 2005 and 2004 is \$727 million and \$327 million, respectively.

### B. Cerro Grande Fire Assistance Act

The U.S. Department of Interior, National Park Service initiated a prescribed burn that resulted in the loss of Federal, state, local, Indian tribal and private property. In July 2000, Congress passed the *Cerro Grande Fire Assistance Act* (CGFAA) to compensate as fully as possible those parties who suffered damages from the Cerro Grande Fire.

At September 30, 2005 and 2004, the liability for unpaid claims and claim adjustment expenses represents an estimate of the known probable and estimable losses that are unpaid as of September 30, 2005 and 2004, based on the Final Rules dated March 21, 2001, entitled, the Disaster Assistance: Cerro Grande Fire Assistance, Final Rule, published in the *Federal Register Part II* at 44 Code of Federal Regulations Chapter I, Part 295. This estimated claims liability for September 30, 2005 and 2004, includes \$7 million and \$9 million, respectively, which is unfunded.

## 16. DEFERRED REVENUE AND ADVANCES FROM OTHERS

Deferred revenue at September 30, and CIS application fee activity for the years ended September 30, 2005 and 2004, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
CIS Application Fees:		
Beginning Balance	\$889	\$949
Collection deposited	1,604	1,354
Less: earned revenue (completed applications)	(1,733)	(1,429)
Adjustments for undeposited collections and other	13	15
Total CIS Application Fees	773	889
EP&R Unexpired NFIP premium	1,226	1,095
Advances from Others	14	14
Deferred Credits	1	22
<b>Total Deferred Revenue</b>	<b>\$2,014</b>	<b>\$2,020</b>

CIS requires advance payments of the fees for applications or petitions for immigration, nationality and citizenship benefits. EP&R's deferred revenue relates to unearned NFIP premiums that are reserved to provide for the unexpired period of insurance coverage.

## 17. ACCRUED PAYROLL AND BENEFITS

Accrued Payroll and Benefits at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Accrued Funded Payroll and Benefits	\$523	\$495
Accrued Unfunded Leave	729	663
Unfunded Employment Related Liabilities	105	105
Actuarial FECA Liability	1,473	1,398
Other	15	31
<b>Total Accrued Payroll and Benefits</b>	<b>\$2,845</b>	<b>\$2,692</b>

### Workers' Compensation

Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability representing money owed for current claims at September 30, 2005 and 2004 was \$358 million and \$240 million, respectively, and is included in other liabilities (see note 19). Future workers' compensation estimates, generated from an application of actuarial procedures developed by the DOL, for the future cost of approved compensation cases at September 30, 2005 and 2004, were approximately \$1.5 billion and \$1.4 billion, respectively. Workers' compensation expense was \$141 million and \$130 million, respectively, for the fiscal years ended September 30, 2005 and 2004.

## 18. MILITARY SERVICE AND OTHER RETIREMENT BENEFITS

Accrued liability for military service and other retirement benefits at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
USCG Military Retirement and Healthcare Benefits	\$25,468	\$23,037
USCG Post-Employment Military Travel Benefits	100	83
USSS DC Pension Plan Benefits	3,453	3,382
<b>Total Military Service and Other Retirement Benefits Liability</b>	<b>\$29,021</b>	<b>\$26,502</b>

**A. Military Retirement System Expense**

The components of the Military Retirement System (MRS) expense for the years ended September 30, 2005 and 2004, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Defined Benefit Plan:		
Normal cost	\$481	\$419
Interest on the liability	1,259	1,162
Actuarial losses/(gains)	617	(101)
Actuarial Assumption Change	103	39
Plan Amendments	-	432
Total Defined Benefit Plan Expense	2,460	1,951
Post-retirement Healthcare:		
Normal cost	174	143
Interest on the liability	266	219
Losses/(gains) due to change in medical inflation rate assumptions	471	(128)
Adjustments	24	-
Total Post-retirement Healthcare Expense	935	234
Total MRS Expense	<b>\$3,395</b>	<b>\$2,185</b>

The USCG's MRS includes the USCG Military Health Services System. The USCG's military service members (both active duty and reservists) participate in the MRS. USCG receives an annual "Retired Pay" appropriation to fund MRS benefits, thus the MRS is treated as a pay-as-you-go plan. The retirement system allows voluntary retirement for active members upon credit of at least 20 years of active service at any age. Reserve members may retire after 20 years of creditable service with benefits beginning at age 60. The health services plan is a post-retirement medical benefit plan, which covers all active duty and reserve members of the USCG. The retirement plan's only assets are accounts receivable representing unintentional overpayments of retiree benefits. The plan may subsequently recover such amounts through future benefit payment adjustments or may elect to waive its right to recover such amounts. The health services plan has no assets.

The unfunded accrued liability, presented as a component of the liability for military service and other retirement in the accompanying Consolidated Balance Sheet, represents both retired pay and health care benefits for non-Medicare eligible retirees/survivors. On October 1, 2002, USCG transferred the actuarial liability for payments for the health care benefits of Medicare eligible retirees and survivors to the Department of Defense Medicare-Eligible Retiree Health Care Fund (the Fund). USCG makes monthly payments to the Fund for current service members. Valuation of the plan's liability is based on the actuarial present value of accumulated plan benefits derived from the future payments that are attributable, under the retirement plan's provisions, to a participant's credited service as of the valuation date. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months. The present value of future benefits is then converted to an unfunded accrued liability by subtracting the

present value of future employer/employee normal contributions. USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5 percent of retired base pay for each year of credited service up to 75 percent of basic pay. Personnel who became members after August 1, 1986 may elect to receive a \$30,000 lump sum bonus after 15 years of service and reduced benefits prior to age 62. Annual disability is equal to the retired pay base multiplied by the larger of (1) 2.5 percent times years of service, or (2) percent disability. The benefit cannot be more than 75 percent of retired pay base. If a USCG member is disabled, the member is entitled to disability benefits, assuming the disability is at least 30 percent (under a standard schedule of rating disabilities by Veterans Affairs) and either: (1) the member has 8 years of service, (2) the disability results from active duty, or (3) the disability occurred in the line of duty during a time of war or national emergency or certain other time periods.

The significant actuarial assumptions used to compute the MRS accrued liability are:

- (1) life expectancy is based upon the DoD death mortality table;
- (2) cost of living increases are 3.0 percent annually; and
- (3) annual rate of investment return is 6.25 percent.

These assumptions are based on a 1997 Experience Study and USCG plans to update the study in fiscal year 2006. Fiscal year 2005 actuarial assumption changes included a salary scale increase from 3.5% to 3.75% and updated Veterans Administration (VA) waiver and combat related pay assumptions.

## **B. District of Columbia Police and Fireman's Retirement System for U.S. Secret Service Employees**

Special agents and personnel in certain job series hired by USSS before January 1, 1984, are eligible to transfer to the District of Columbia Police and Fireman's Retirement System (DC Pension Plan) after completion of ten years of protection related experience. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the DC Pension Plan make contributions of 7 percent of base pay with no matching contribution made by USSS. Annuitants of this plan receive benefit payments directly from the DC Pension Plan. The USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants, and payroll contributions received from current employees. This liability is presented as a component of the liability for military service and other retirement benefits in the accompanying consolidated balance sheet. SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, requires the administrative entity (administrator) to report the actuarial liability. However, the USSS adopted the provisions of SFFAS No. 5 because the administrator, the DC Pension Plan, is not a Federal entity and as such the liability for future funding would not otherwise be recorded in the United States government wide consolidated financial statements.

The liability and expense are computed using the aggregate cost method. The primary actuarial assumptions used to determine the liability at September 30, 2005 are:

- (1) life expectancy is based upon the 1994 Uninsured Pension (UP94) tables;
- (2) cost of living increases are 3.5 percent annually;
- (3) rates of salary increases are 3.5 percent annually; and
- (4) annual rate of investment return is 7.25 percent.

Total expenses related to the DC Pension Plan for the fiscal years ended September 30, 2005 and 2004, were \$188 million and \$173 million, respectively, of which \$17 million and \$16 million were funded but not paid at September 30, 2005 and 2004, respectively.

## 19. OTHER LIABILITIES

Other liabilities at September 30, consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
<b>Intragovernmental:</b>		
Accrued FECA Liability	\$358	\$240
Advances from Others	109	139
Employer Benefits Contributions and Payroll Taxes	96	69
Borrowings from Treasury	226	-
Other Intragovernmental Liabilities	65	115
<b>Total Intragovernmental Other Liabilities</b>	<b>854</b>	<b>563</b>
<b>Public:</b>		
Duties for Imports of Canadian Softwood Lumber (Notes 2 and 3)	4,706	2,940
Injured Domestic Industries (Notes 2 and 3)	237	332
Contingent Legal Liabilities (Note 21)	247	80
Capital Lease Liability (Note 20)	129	148
Environmental and Disposal Liabilities (Note 21)	172	159
Refunds and Drawbacks (Note 2 and 25)	118	132
Other Public Liabilities	336	375
<b>Total Public Other Liabilities</b>	<b>5,945</b>	<b>4,166</b>
<b>Total Other Liabilities</b>	<b>\$6,799</b>	<b>\$4,729</b>

Intragovernmental accrued FECA liability primarily represents the unfunded workers' compensation for current claims. Borrowings from Treasury represents money borrowed against the NFIP borrowing authority of \$1.5 billion to pay flood insurance claims, mainly for damages caused by four major hurricanes which occurred late in fiscal year 2004. Other public liabilities consist primarily of liability for deposit funds and suspense at ICE and CBP. Intragovernmental other liabilities consist principally of current liabilities, while the majority of public other liabilities are considered non-current.

The *Continued Dumping and Subsidy Offset Act of 2000* calls for CBP to collect and disburse monies received in connection with antidumping and countervailing duty orders and findings to qualifying Injured Domestic Industries (IDI). Antidumping duties are collected when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry. Antidumping and countervailing duties collected and due to IDIs at September 30, 2005 and 2004, totaled \$237 million and \$332 million, respectively. CBP has collected Canadian softwood lumber duties of \$4.7 billion and \$2.9 billion respectively, as of September 30, 2005 and 2004. The duties will eventually be distributed, pursuant to rulings by the Department of Commerce (DOC). Duties for imports of Canadian

softwood lumber are included in non-entity fund balance with Treasury, and represent a non-entity liability for which there is an antidumping dispute currently being litigated.

### Refunds and Other Payments

Disbursements from the refunds and drawback account for the fiscal years ended September 30, 2005 and 2004 consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Refunds	\$729	\$566
Drawback	430	404
<b>Total</b>	<b>\$1,159</b>	<b>\$970</b>

The disbursements include interest payments of \$33 million and \$45 million, for the fiscal years ended September 30, 2005 and 2004 respectively. Refunds and other payments funded from collections rather than the refunds and drawback account totaled \$354 million and \$251 million for the fiscal years ended September 30, 2005 and 2004, respectively.

Amounts refunded during the fiscal years ended September 30, 2005 and 2004, identified by entry year, consisted of the following (in millions):

Entry Year	2005 (unaudited)	2004 (unaudited)
2005	\$684	\$ -
2004	139	531
2003	42	128
2002	21	64
Prior Years	273	247
<b>Total</b>	<b>\$1,159</b>	<b>\$970</b>

The disbursement totals for refunds include antidumping and countervailing duties collected that are refunded pursuant to rulings by the DOC. These duties are refunded when the DOC issues a decision in favor of the foreign industry.

The total amounts of antidumping and countervailing duties vary from year to year depending on decisions from DOC. Antidumping and countervailing duty refunds (included in total refunds presented above) and associated interest refunded for the fiscal year ended September 30, 2005 and 2004 consisted of the following (in millions):

	2005 (unaudited)	2004 (unaudited)
Antidumping and countervailing duty refunds	\$124	\$75
Interest	14	19
<b>Total Antidumping and countervailing duty refunds</b>	<b>\$138</b>	<b>\$94</b>



## 20. LEASES

### A. Operating Leases (unaudited)

The Department leases various facilities and equipment under leases accounted for as operating leases. Leased items consist of offices, warehouses, vehicles and other equipment. The majority of office space occupied by the Department is either owned by the Federal government or is leased by GSA from commercial sources. The Department is not committed to continue to pay rent to GSA beyond the period occupied providing proper advance notice to GSA is made and unless the space occupied is designated as unique to Department operations. However, it is expected the Department will continue to occupy and lease office space from GSA in future years and lease charges will be adjusted annually to reflect operating costs incurred by GSA.

As of September 30, 2005, estimated future minimum lease commitments under operating leases for equipment and GSA controlled leases were as follows (in millions):

	GSA	Non-GSA	Total
FY 2006	\$813	\$134	\$947
FY 2007	844	150	994
FY 2008	851	155	1,006
FY 2009	870	161	1,031
FY 2010/ Beyond FY 2009	893	165	1,058
Beyond FY 2010	4,309	655	4,964
<b>Total future minimum lease payments</b>	<b>\$8,580</b>	<b>\$1,420</b>	<b>\$10,000</b>

The estimated future lease payments for GSA controlled leases are based on payments made during the year ended September 30, 2005.

### B. Capital Leases

The Department maintains capital leases for equipment, buildings and commercial software license agreements. The liabilities associated with capital leases and software license agreements are presented as other liabilities in the accompanying consolidated financial statements based upon the present value of the future minimum lease payments.

Certain license agreements are cancelable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements may be funded from future sources.

## 21. CONTINGENT LIABILITIES AND OTHER COMMITMENTS

### A. Legal Contingent Liabilities

The estimated contingent liability recorded in the accompanying financial statements included with other liabilities for all probable and estimable litigation related claims at September 30, 2005, was \$247 million, of which \$26 million is funded. (At September 30, 2004, the estimated contingent liability was \$80 million, of which \$26 million was funded). Asserted and pending legal claims for which loss is reasonably possible was estimated to range from \$319 million to \$2.5 billion, at September 30, 2005. The Department is subject to various other legal proceedings and claims. In management's opinion, the ultimate resolution of other actions will not materially affect the Department's financial position or net costs.

### B. Environmental Cleanup Liabilities

The Department is responsible to remediate its sites with environmental contamination, and is party to various administrative proceedings, legal actions and tort claims which may result in settlements or decisions adverse to the Federal government.

The source of remediation requirements to determine the environmental liability is based on compliance with Federal and state or local environmental laws and regulations. The major Federal laws covering environmental response, cleanup and monitoring are the *Comprehensive Environmental Response, Compensation and Liability Act* and the *Resource Conservation and Recovery Act*. Environmental liability of \$172 million (\$14 million funded), as of September 30, 2005 and \$159 million (\$15 million funded), as of September 30, 2004 is presented with other liabilities in the accompanying Consolidated Balance Sheet. The liabilities consist primarily of fuel storage tank program, fuels, solvents, industrial, chemicals and other environmental cleanup associated with normal operations of CBP and the USCG. For Plum Island Animal Disease Center, under S&T, potential environmental liabilities that are not presently estimable could exist due to the facility's age, old building materials used and other materials associated with the facility's past use as a United States Army installation for coastline defense. Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in technology, environmental laws and regulations, and plans for disposal.

### C. Duty and Trade Refunds

There are various trade related matters that fall under the jurisdiction of other Federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes and fees collected by CBP. Until a decision is reached by the other Federal agencies, CBP does not have sufficient information to estimate a contingent liability amount, if any, for trade related refunds under jurisdiction of other Federal agencies in addition to the amount accrued on the accompanying financial statements. All known refunds as of September 30, 2005, and 2004, have been recorded.

### D. Loaned Aircraft and Equipment

The Department is generally liable to the DoD for damage or loss to aircraft on loan to CBP, AMO. As of September 30, 2005, CBP had 16 aircraft loaned from DoD with an acquisition value of \$94 million

(unaudited). (These aircraft were reported as on loan to ICE, as of September 30, 2004. During fiscal year 2005, ICE transferred these loaned aircraft to CBP. No damage or aircraft losses were accrued as of September 30, 2005.

#### **E. Other Contractual Arrangements**

In addition to future lease commitments discussed in Note 20, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities amounted to \$35 billion and \$21 billion as of September 30, 2005 and 2004, respectively.

During fiscal year 2004, TSA entered into a number of *Letters of Intent for Modifications to Airport Facilities* with eight major airports in which TSA may reimburse the airports for 75% (estimated total of \$957 million) of the cost to modify the facilities for security purposes. These Letters of Intent would not obligate TSA until funds have been appropriated and obligated. In addition, each airport shall have title to any improvements to its facilities. During fiscal year 2005, \$269 million was appropriated and is available for payment to the airports upon submission to TSA of an invoice for the modification costs incurred. As of September 30, 2005, TSA has received invoices or documentation for costs incurred and paid in a total of \$204 million related to these agreements. The amounts requested under these Letters of Intent may differ significantly from the original estimates and, therefore, TSA could ultimately pay substantially more than originally estimated.

#### **F. NFIP Premiums**

NFIP premium rates are generally established for actuarially rated policies with the intent of generating sufficient premiums to cover losses and loss adjustment expenses of a historical average loss year and to provide a surplus to compensate the Insurance Underwriting Operations for the loss potential of an unusually severe loss year due to catastrophic flooding.

Notwithstanding the foregoing, subsidized rates have historically been charged on a countrywide basis for certain classifications of insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year. The subsidized rates do not include a provision for losses from catastrophic flooding. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the non-subsidized premium zones applicable to the community).

FEMA's practice of recording a year-end obligation against budgetary obligations for estimated losses was changed in fiscal year 2005. Consistent with the guidance contained in Section 20.5 of OMB Circular A-11, FEMA now enters obligations against its budgetary allocation when final approval is provided on a claim. The resulting correction of this error is disclosed in Note 30 to these financial statements.

## 22. BALANCE SHEET CROSSWALK TO OMB CIRCULAR A-136 CLASSIFICATIONS

The Department's consolidated balance sheet is presented in a format which varies from the format prescribed by OMB Circular A-136. The following tables show reclassification adjustments needed to present the Balance Sheet in the OMB Circular A-136 format (in millions):

As of September 30, 2005: (Unaudited)	As	Reclassification		OMB
	Presented	debit	credit	A-136
<b><u>Assets</u></b>				
Intragovernmental:				
Fund Balance with Treasury	\$97,004	\$ -	\$ -	\$97,004
Investments	738	-	-	738
Advances and Prepayments	2,937	-	2,937	-
Accounts Receivable	-	217	-	217
Loans Receivable	-	-	-	-
Other	361	2,720	-	3,081
Total Intragovernmental	101,040	2,937	2,937	101,040
Cash and Other Monetary Assets	-	78	-	78
Investments	-	-	-	-
Accounts Receivable	532	-	-	532
Taxes Receivable, Net	1,400	-	-	1,400
Loans Receivable, Net	-	-	-	-
Operating Materials, Supplies, & Inventory, Net	506	-	506	-
Inventory and Related Property, Net	-	506	-	506
General Property, Plant and Equipment, Net	10,470	-	-	10,470
Other	558	-	78	480
<b>Total Assets</b>	<b>\$114,506</b>	<b>\$3,521</b>	<b>\$3,521</b>	<b>\$114,506</b>
<b><u>Liabilities</u></b>				
Intragovernmental:				
Due to the Treasury General Fund	\$1,434	\$1,434	\$ -	\$ -
Accounts Payable	870	-	-	870
Debt	-	-	226	226
Other	854	-	1,208	2,062
Total Intragovernmental	3,158	1,434	1,434	3,158
Accounts Payable	3,329	-	-	3,329
Loan Guarantee Liability	-	-	-	-
Debt held by the Public	-	-	-	-
Claims and Claims Settlement Liabilities	23,433	23,433	-	-
Deferred Revenue and Advances from Others	2,014	2,014	-	-
Accrued Payroll and Benefits	2,845	2,845	-	-
Military Service and Other Retirement Benefits	29,021	29,021	-	-
Federal Employee and Veteran Benefits	-	-	30,501	30,501
Environmental and Disposal Liability	-	-	172	172
Benefits Due and Payable	-	-	-	-
Other	5,945	-	26,640	32,585
<b>Total Liabilities</b>	<b>69,745</b>	<b>58,747</b>	<b>58,747</b>	<b>69,745</b>
<b><u>Net Position</u></b>				
Unexpended Appropriations	87,166	-	-	87,166
Cumulative Results of Operations	(42,405)	-	-	(42,405)
<b>Total Net Position</b>	<b>\$44,761</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$44,761</b>
<b>Total Liabilities and Net Position</b>	<b>\$114,506</b>	<b>\$58,747</b>	<b>\$58,747</b>	<b>\$114,506</b>

As of September 30, 2004: (Unaudited)	As Presented	Reclassification		OMB A-136
		debit	credit	
<b><u>Assets</u></b>				
Intragovernmental:				
Fund Balance with Treasury	\$33,436	\$ -	\$ -	\$33,436
Investments	1,625	-	-	1,625
Advances and Prepayments	2,886	-	2,886	-
Accounts Receivable	-	311	-	311
Loans Receivable	-	-	-	-
Other	481	2,575	-	3,056
Total Intragovernmental	38,428	2,886	2,886	38,428
Cash and Other Monetary Assets	-	87	-	87
Investments	-	-	-	-
Accounts Receivable	463	-	-	463
Taxes Receivable, Net	1,273	13	-	1,286
Loans Receivable, Net	-	-	-	-
Operating Materials, Supplies, & Inventory, Net	496	-	496	-
Inventory and Related Property, Net	-	496	-	496
General Property, Plant and Equipment, Net	9,746	-	-	9,746
Other	400	-	100	300
<b>Total Assets</b>	<b>\$50,806</b>	<b>\$3,482</b>	<b>\$3,482</b>	<b>\$50,806</b>
<b><u>Liabilities</u></b>				
Intragovernmental:				
Due to the Treasury General Fund	\$1,257	\$1,257	\$ -	\$ -
Accounts Payable	911	-	-	911
Debt	-	-	8	8
Other	563	-	1,249	1,812
Total Intragovernmental	2,731	1,257	1,257	2,731
Accounts Payable	2,791	-	-	2,791
Loan Guarantee Liability	-	-	-	-
Debt held by the Public	-	-	-	-
Claims and Claims Settlement Liabilities	1,417	1,417	-	-
Deferred Revenue and Advances from Others	2,020	2,020	-	-
Accrued Payroll and Benefits	2,692	2,692	-	-
Military Service and Other Retirement Benefits	26,502	26,502	-	-
Federal Employee and Veteran Benefits	-	-	27,828	27,828
Environmental and Disposal Liability	-	-	159	159
Benefits Due and Payable	-	-	-	-
Other	4,166	-	4,644	8,810
<b>Total Liabilities</b>	<b>42,319</b>	<b>33,888</b>	<b>33,888</b>	<b>42,319</b>
<b><u>Net Position</u></b>				
Unexpended Appropriations	25,504	-	-	25,504
Cumulative Results of Operations	(17,017)	-	-	(17,017)
<b>Total Net Position</b>	<b>\$8,487</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$8,487</b>
<b>Total Liabilities and Net Position</b>	<b>\$50,806</b>	<b>\$33,888</b>	<b>\$33,888</b>	<b>\$50,806</b>

## 23. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF DHS COMPONENTS

Operating costs are summarized in the Consolidated Statement of Net Cost by responsibility segment, as applicable to the reporting period. The net cost of operations is the gross (i.e., total) cost incurred by the Department, less any exchange (i.e., earned) revenue. A responsibility segment is the component that carries out a mission or major line of activity, and whose managers report directly to Departmental Management. For fiscal year 2004, the Department's responsibility segments were responsible for accomplishing the three objectives of the President's *National Strategy for Homeland Security*.

During fiscal year 2004, the Department interpreted the National Strategy and developed its first Strategic Plan, which included seven goals presented in Note 1.A., Reporting Entity.

Beginning with the fiscal year 2005 budget, the Department integrated budget and performance information as required by the *President's Management Agenda* and the *Government Performance and Results Act*. To integrate performance and financial information, a supplemental schedule of net cost is included in this note, in which costs by program are allocated to Departmental strategic goals. Also, the required disclosure on intragovernmental costs and exchange revenue is presented by DHS sub-organizations. In addition, due to the complexity of the Border and Transportation Security Directorate organizational structure, a supplemental schedule is presented to show the net cost of the BTS Directorate's sub organizations.

**Net Costs of Department Sub-organizations by Strategic Goal (in millions)**  
For the year ended September 30, 2005 (Unaudited)

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
<b>BTS Directorate:</b>								
BTS HQ	\$ -	\$100	\$ -	\$ -	\$ -	\$82	\$ -	\$182
CBP	-	5,939	-	-	-	501	-	6,440
ICE	-	3,378	500	-	-	-	-	3,878
TSA	7	3,572	62	-	-	-	-	3,641
FLE	-	226	-	-	-	-	-	226
<b>Subtotal – BTS Directorate</b>	<b>7</b>	<b>13,215</b>	<b>562</b>	<b>-</b>	<b>-</b>	<b>583</b>	<b>-</b>	<b>14,367</b>
<b>EP&amp;R Directorate</b>								
IAIP Directorate	-	-	25,933	2,272	9,422	-	-	37,627
S&T Directorate	263	-	389	-	-	-	-	652
USCG	114	417	174	26	-	-	-	731
USSS	937	3,723	2,032	1,155	29	1,493	-	9,369
CIS	-	-	1,483	-	-	-	-	1,483
Departmental Operations/Other	-	(93)	-	-	-	(238)	-	(331)
<b>TOTAL Department</b>	<b>\$1,321</b>	<b>\$17,262</b>	<b>\$32,459</b>	<b>\$3,453</b>	<b>\$9,451</b>	<b>\$1,838</b>	<b>\$621</b>	<b>\$66,405</b>

**Net Costs of Department Sub-organizations by Strategic Goal (in millions)**  
For the year ended September 30, 2004 (Unaudited)

	Awareness	Prevention	Protection	Response	Recovery	Service	Organizational Excellence	TOTAL
<b>BTS Directorate:</b>								
BTS HQ	\$ -	\$9	\$1	\$1	\$ -	\$ -	\$ -	\$11
CBP	-	5,511	-	-	-	413	-	5,924
ICE	58	3,023	737	-	-	-	-	3,818
TSA	151	2,473	1,018	37	-	-	113	3,792
FLE	22	88	85	-	-	-	1	196
<b>Subtotal – BTS Directorate</b>	<b>231</b>	<b>11,104</b>	<b>1,841</b>	<b>38</b>	<b>-</b>	<b>413</b>	<b>114</b>	<b>13,741</b>
<b>EP&amp;R Directorate</b>	<b>-</b>	<b>-</b>	<b>1,501</b>	<b>1,125</b>	<b>3,271</b>	<b>-</b>	<b>-</b>	<b>5,897</b>
IAIP Directorate	140	-	357	-	-	-	-	497
S&T Directorate	66	439	126	100	24	-	-	755
USCG	560	4,840	1,564	975	113	108	-	8,160
USSS	-	-	1,368	-	-	-	-	1,368
CIS	-	99	-	-	-	349	-	448
Departmental Operations/Other	-	-	1,937	-	-	-	325	2,262
<b>TOTAL Department</b>	<b>\$997</b>	<b>\$16,482</b>	<b>\$8,694</b>	<b>\$2,238</b>	<b>\$3,408</b>	<b>\$870</b>	<b>\$439</b>	<b>\$33,128</b>



**Statement of Net Cost sub-schedule:**  
**Intragovernmental Costs and Exchange Revenue (in millions)**  
**For the year ended September 30, 2005**  
**(Unaudited)**

	Intragovernmental	With the Public	Total
BTS Directorate			
Gross Cost	\$3,702	\$14,212	\$17,914
Less Earned Revenue	(640)	(2,907)	(3,547)
Net Cost	3,062	11,305	14,367
EP&R Directorate			
Gross Cost	1,785	38,020	39,805
Less Earned Revenue	(107)	(2,071)	(2,178)
Net Cost	1,678	35,949	37,627
IAIP Directorate			
Gross Cost	475	177	652
Less Earned Revenue	-	-	-
Net Cost	475	177	652
S&T Directorate			
Gross Cost	484	259	743
Less Earned Revenue	(12)	-	(12)
Net Cost	472	259	731
USCG			
Gross Cost	980	8,609	9,589
Less Earned Revenue	(133)	(87)	(220)
Net Cost	847	8,522	9,369
USSS			
Gross Cost	361	1,144	1,505
Less Earned Revenue	(22)	-	(22)
Net Cost	339	1,144	1,483
USCIS			
Gross Cost	525	766	1,291
Less Earned Revenue	(14)	(1,608)	(1,622)
Net Cost	511	(842)	(331)
Departmental Operations and Other			
Gross Cost	460	2,059	2,519
Less Earned Revenue	(12)	-	(12)
Net Cost	448	2,059	2,507
DHS Total			
Gross Cost	8,772	65,246	74,018
Less Earned Revenue	(940)	(6,673)	(7,613)
NET COST	<b>\$7,832</b>	<b>\$58,573</b>	<b>\$66,405</b>

**Statement of Net Cost sub-schedule:**  
**Intragovernmental Costs and Exchange Revenue (in millions)**  
**For the year ended September 30, 2004**  
**(Unaudited)**

	Intragovernmental	With the Public	Total
BTS Directorate			
Gross Cost	\$2,891	\$13,755	\$16,646
Less Earned Revenue	(547)	(2,358)	(2,905)
Net Cost	2,344	11,397	13,741
EP&R Directorate			
Gross Cost	599	7,220	7,819
Less Earned Revenue	(119)	(1,901)	(2,020)
Net Cost of Continuing Operations	480	5,319	5,799
Cost of Transferred Operations	98		98
Net Cost	578	5,319	5,897
IAIP Directorate			
Gross Cost	349	148	497
Less Earned Revenue	-	-	-
Net Cost	349	148	497
S&T Directorate			
Gross Cost	359	396	755
Less Earned Revenue	-	-	-
Net Cost	359	396	755
USCG			
Gross Cost	1,186	7,131	8,317
Less Earned Revenue	(90)	(67)	(157)
Net Cost	1,096	7,064	8,160
USSS			
Gross Cost	389	997	1,386
Less Earned Revenue	(18)	-	(18)
Net Cost	371	997	1,368
USCIS			
Gross Cost	553	1,205	1,758
Less Earned Revenue	15	(1,325)	(1,310)
Net Cost	568	(120)	448
Departmental Operations and Other			
Gross Cost	380	1890	2,270
Less Earned Revenue	(7)	(1)	(8)
Net Cost	373	1,889	2,262
DHS Total			
Gross Cost	6,804	32,742	39,546
Less Earned Revenue	(766)	(5,652)	(6,418)
NET COST	<b>\$6,038</b>	<b>\$27,090</b>	<b>\$33,128</b>

**Statement of Net Cost sub-schedule:****Components of Border and Transportation Security (BTS) Directorate (in millions)****For the year ended September 30, 2005****(Unaudited)**

	Intragovernmental	With the Public	Total
BTS HQ (Office of Undersecretary)			
Gross Cost	\$28	\$154	\$182
Less Earned Revenue	-	-	-
Net Cost	28	154	182
CBP			
Gross Cost	1,188	5,871	7,059
Less Earned Revenue	(33)	(586)	(619)
Net Cost	1,155	5,285	6,440
ICE (with FAM)			
Gross Cost	1,309	3,213	4,522
Less Earned Revenue	(557)	(87)	(644)
Net Cost	752	3,126	3,878
TSA			
Gross Cost	1,150	4,744	5,894
Less Earned Revenue	(20)	(2,233)	(2,253)
Net Cost	1,130	2,511	3,641
FLETC			
Gross Cost	27	230	257
Less Earned Revenue	(30)	(1)	(31)
Net Cost	(3)	229	226
BTS Directorate Total			
Gross Cost	3,702	14,212	17,914
Less Earned Revenue	(640)	(2,907)	(3,547)
NET COST - BTS	<b>\$3,062</b>	<b>\$11,305</b>	<b>\$14,367</b>

**Statement of Net Cost sub-schedule:****Components of Border and Transportation Security (BTS) Directorate (in millions)****For the year ended September 30, 2004****(Unaudited)**

	Intragovernmental	With the Public	Total
BTS HQ (Office of Undersecretary)			
Gross Cost	\$6	\$5	\$11
Less Earned Revenue	-	-	-
Net Cost	6	5	11
CBP			
Gross Cost	1,677	4,582	6,259
Less Earned Revenue	(62)	(273)	(335)
Net Cost	1,615	4,309	5,924
ICE (with FAM)			
Gross Cost	610	3,586	4,196
Less Earned Revenue	(366)	(12)	(378)
Net Cost	244	3,574	3,818
TSA			
Gross Cost	571	5,387	5,958
Less Earned Revenue	(95)	(2,071)	(2,166)
Net Cost	476	3,316	3,792
FLETC			
Gross Cost	27	195	222
Less Earned Revenue	(24)	(2)	(26)
Net Cost	3	193	196
BTS Directorate Total			
Gross Cost	2,891	13,755	16,646
Less Earned Revenue	(547)	(2,358)	(2,905)
NET COST - BTS	<b>\$2,344</b>	<b>\$11,397</b>	<b>\$13,741</b>

## 24. COMBINED STATEMENT OF BUDGETARY RESOURCES (SBR)

The Combined Statement of Budgetary Resources (SBR) provides information about how budgetary resources were made available as well as their status at the end of the period. It is the only financial statement exclusively derived from the entity's budgetary general ledger in accordance with budgetary accounting rules that are incorporated into generally accepted accounting principles for the Federal government. The total Budgetary Resources of \$124,661 million and \$53,879 million for fiscal years 2005 and 2004, respectively, include new budget authority, unobligated balances at the beginning of the year and transferred in/out, spending authority from offsetting collections, recoveries of prior year obligations and adjustments.

### A. Appropriations Received (in millions)

Appropriations received on the SBR of \$106,691 million will not equal the amounts reported on the Consolidated Statement of Changes in Net Position (SCNP) of \$101,251 million due to: 1) \$4,544 million of trust and special fund receipts that are not reflected in the unexpended appropriation section of the SCNP; 2) \$33 million of change in amounts appropriated from specific Treasury-managed trust funds; 3) \$845 million of refunds and drawbacks; and 4) \$18 million of receipts unavailable for obligations upon collections.

### B. Permanently Not Available/Adjustments (in millions)

	2005 (unaudited)	2004 (unaudited)
Budgetary resources permanently not available per SBR	\$1,961	\$2,563
Appropriations Returned per SCNP	1,876	2,398
Difference (explained below)	<u>\$85</u>	<u>\$165</u>

Budgetary resources permanently not available on the SBR do not agree with the unavailable appropriations returned to Treasury on the SCNP due to: (1) trust, special and revolving funds which go through the cumulative results of operations and not unexpended appropriations; (2) repayments of debt that were processed through payables and not unexpended appropriations; and (3) reductions of borrowing authority that have no effect on the proprietary accounts.

### C. Apportionment Categories of Obligations Incurred

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, or objectives; or for any combination thereof (in millions).

<b>FY Ended September 30, 2005:</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$27,064	\$36,310	\$853	<b>\$64,227</b>
Obligations Incurred - Reimbursable	3,740	655	(1)	<b>4,394</b>
<b>Total Obligations Incurred</b>	<b>\$30,804</b>	<b>\$36,965</b>	<b>\$852</b>	<b>\$68,621</b>

<b>FY Ended September 30, 2004:</b>	<b>Apportionment Category A</b>	<b>Apportionment Category B</b>	<b>Exempt from Apportionment</b>	<b>Total</b>
Obligations Incurred - Direct	\$23,239	\$18,634	\$734	<b>\$42,607</b>
Obligations Incurred - Reimbursable	2,015	854	11	<b>2,880</b>
<b>Total Obligations Incurred</b>	<b>\$25,254</b>	<b>\$19,488</b>	<b>\$745</b>	<b>\$45,487</b>

### D. Borrowing Authority for EP&R

The NFIP has borrowing authority of \$3.5 billion and \$1.5 billion, as of September 30, 2005 and 2004 respectively, available for disaster relief purposes. NFIP loans are for a three-year term. Interest rates are obtained from the Bureau of Public Debt. Simple interest is calculated monthly, and is offset by any interest rebate, if applicable. Interest is paid semi-annually on October 1 and April 1. Partial loan repayments are permitted. Principal repayments are required only at maturity, but are permitted at any time during the term of the loan. At the end of the fiscal year, borrowing authority is reduced by the amount of any unused portion. EP&R's liability for borrowed amounts was \$226 million and \$8 million respectively, at September 30, 2005 and 2004.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from the Treasury. The repayment terms of EP&R's borrowing from Treasury are based on the life of each cohort of direct loans. Proceeds from collections of principal and interest from the borrowers are used to repay the Treasury. In addition, an annual reestimate is performed to determine any change from the original subsidy rate. If an upward reestimate is determined to be necessary, these funds are available through permanent indefinite authority. Once these funds are appropriated, the original borrowings are repaid to the Treasury.

EP&R maintains three funds under the *Credit Reform Act*:

- 70-4234: Disaster Assistance Direct Loan Financing
- 70-0703: Disaster Assistance Direct Loan Program (no-year)
- 70-0703: Disaster Assistance Direct Loan Program (annual)

**E. Non-Budgetary, Credit Program and Financing Account**

Included in the SBR are amounts for the Department's one financing account in EP&R for Disaster Assistance Direct Loans. This non-budgetary financing account is not presented separately on the SBR because the amounts and impact are immaterial. Financing account information for the fiscal years ended September 30, 2005 and 2004 is presented below (in millions):

**Budgetary Resources**

	2005 (unaudited)	2004 (unaudited)
Budget Authority:		
Borrowing Authority	\$26	\$26
Spending Authority from Offsetting Collections:		
Receivable from Federal Sources	8	(3)
Recoveries of Prior Year Obligations	-	3
Permanently Not Available:		
Other Authority Withdrawn	(8)	(26)
<b>Total Budgetary Resources</b>	<b>\$26</b>	<b>\$0</b>
<b>Total Status of Budgetary Resources</b>	<b>\$26</b>	<b>\$0</b>
<b>Total Outlays</b>	<b>\$8</b>	<b>\$0</b>

**F. Explanation of Differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government**

The SBR has been prepared in a format consistent with the amounts shown in the President's Budget (Budget of the United States Government). The actual amounts for fiscal year 2005 in the President's Budget have not been published at the time these financial statements were prepared. The President's Budget with the actual fiscal year 2004 amounts was released in February 2005, and the actual fiscal year 2005 amounts are estimated to be released in February 2006.

The Department's fiscal year 2004 budget amounts does not match the fiscal year 2004 President's Budget. The Obligated Balance, Beginning of Period, and the Unobligated Balance, Beginning of Period, does not equal the balance reported in the prior fiscal year as a result of a correction of an error associated with the recording of obligations for FEMA's National Flood Insurance Program (see Note 30).

**25. PERMANENT INDEFINITE APPROPRIATIONS**

Permanent indefinite appropriations refer to the appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount. The Department has two permanent indefinite appropriations as follows:

- CBP has a permanent and indefinite appropriation, which is used to disburse tax and duty refunds, and duty drawbacks. Although funded through appropriations, refund and drawback activity is, in most instances, reported as a custodial activity of the Department. Refunds are custodial revenue-related activity in that refunds are a direct result of taxpayer overpayments of their tax liabilities. Federal tax revenue received from taxpayers is not available for use in the operation of the Department and is not reported on the Consolidated Statement of Net Cost. Likewise, the refunds of overpayments are not available for use by the Department in its operations. Refunds and drawback disbursements totaled \$1,159 million and \$970 million for the fiscal years ended September 30, 2005 and 2004 respectively, and are presented as a use of custodial revenue on the Statement of Custodial Activity.
- USSS has a permanent and indefinite appropriation, which is used to reimburse the District of Columbia Police and Fireman's Retirement System (DC Pension Plan) for the difference between benefits to participants in the DC Pension Plan (see note 18), and payroll contributions received from current employees.

These appropriations are not subject to budgetary ceilings established by Congress. CBP's refunds payable at year-end are not subject to funding restrictions. Refund payment funding is recognized as appropriations are used.

## 26. LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES OF BUDGET AUTHORITY

Unobligated balances, whose period of availability has expired, are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled. For a no-year account, the unobligated balance is carried forward indefinitely until (1) specifically rescinded by law; or (2) the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years.

Included in the cumulative results of operations for special funds is \$760 million and \$1,015 million at September 30, 2005 and 2004 respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing, to assess and collect fees associated with services performed at certain small airports or other facilities, retain amounts needed to offset costs associated with collecting duties, and taxes and fees for the government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the User Fees Account, totaling approximately \$741 million and \$730 million at September 30, 2005 and 2004 respectively, is restricted by law in its use to offset specific costs incurred by the Department and are available to the extent provided in Department Appropriation Acts.

The entity trust fund balances result from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by the Department relating to their sale, to



use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

## 27. EXPLANATION OF THE RELATIONSHIP BETWEEN LIABILITIES NOT COVERED BY BUDGETARY RESOURCES AND THE CHANGES IN COMPONENTS REQUIRING OR GENERATING RESOURCES IN FUTURE PERIODS

The relationship between the amounts reported as liabilities not covered by budgetary resources on the balance sheet and amounts reported as components requiring or generating resources in future periods on the Consolidated Statement of Financing were analyzed. The differences are primarily due to the increase in EP&R claims and claims settlement of \$21.6 billion and USCG actuarial pension liability of \$1.7 billion and other USCG military post employment liability of \$1 billion in fiscal year 2005, which do not generate net cost of operations or require the use of budgetary resources. In fiscal year 2004, the differences were primarily due to the increase in EP&R claims and claims settlement liability of \$1.0 billion and the increase in the USCG actuarial pension liability of \$1.3 billion.

## 28. DEDICATED COLLECTIONS

The Department administers various Trust Funds that receive dedicated collections. In the U.S. Government budget, Trust Funds are accounted for separately and used only for specified purposes. A brief description of the major Trust Funds and their purpose follows.

### A. Oil Spill Liability Trust Fund

The Oil Spill Liability Trust Fund (OSLTF) was established by the *Oil Pollution Act (OPA) of 1990*, P.L. 101-380, to help facilitate cleanup activities and compensate for damages from oil spills. The OSLTF account includes the parent OSLTF fund that is managed by BPD, the USCG Oil Spill Recovery transfer account, the USCG Trust Fund Share of Expenses transfer account and the USCG OPA Claims transfer account. These three transfer accounts fund outlays through SF-1151 non-expenditure transfers from the BPD OSLTF parent fund.

### B. Boat Safety Account

The USCG's Boat Safety Account was established by *Federal Boat Safety Act (FBSA) of 1971*, P.L. 92-75, to "encourage greater State participation and uniformity in boating safety efforts, and particularly to permit the States to assume the greater share of boating safety education, assistance and enforcement activities." The Boat Safety Account receives funding from the Department of Interior's Sport Fish Restoration Account, which is funded in part from the Aquatic Resource Trust Fund (ARTF) managed by Bureau of Public Debt (BPD). Funds are available until expended (no-year). Outlays in this account are funded through SF-1151 non-expenditure transfers from the Sport Fish account.

Condensed financial information as of and for the fiscal years ended September 30, 2005 and 2004 is presented below (in millions):

	2005 (unaudited)		2004 (unaudited)	
	Oil Spill Liability Trust Fund	Boat Safety Account	Oil Spill Liability Trust Fund	Boat Safety Account
<b>Assets:</b>				
Investments	\$735	\$ -	\$838	\$ -
Other Assets	48	71	26	68
<b>Total Assets</b>	<b>\$783</b>	<b>\$71</b>	<b>\$864</b>	<b>\$68</b>
<b>Liabilities:</b>				
Accounts Payable	\$ -	\$16	\$1	\$19
Other Liabilities	-	-	-	-
<b>Total Liabilities</b>	<b>-</b>	<b>16</b>	<b>1</b>	<b>19</b>
<b>Net Position:</b>				
Beginning Balance	863	49	1,010	35
Non-Exchange Revenue	44	64	(32)	64
Less: Program Expenses	(124)	(58)	(115)	(50)
<b>Net Position</b>	<b>783</b>	<b>55</b>	<b>863</b>	<b>49</b>
<b>Total Liabilities and Net Position</b>	<b>\$783</b>	<b>\$71</b>	<b>\$864</b>	<b>\$68</b>

## 29. TRANSFER OF THE STRATEGIC NATIONAL STOCKPILE

The transfer of the Strategic National Stockpile (SNS) pursuant to *Project Bioshield Act of 2004* had an effect on all of the Department's fiscal year 2004 financial statements, except for the Statement of Custodial Activity.

The following lines on the Department's Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Consolidated Statement of Financing and Combined Statement of Budgetary Resources include the transfer out of assets, liabilities, net position and budgetary resources of the SNS as of August 13, 2004, the date of transfer.

### Consolidated Balance Sheet (in millions)

Fund Balance with Treasury	\$626
Operating Materials and Supplies, Inventory and Stockpile	924
Property, Plant and Equipment, Net	5
Total Assets	<u>\$1,555</u>
Accounts Payable	\$88
Unexpended Appropriations	538
Cumulative Results of Operations	929
Total Liabilities and Net Position	<u>\$1,555</u>

### Consolidated Statement of Net Cost (in millions)

Costs – Intragovernmental	\$98
Less Earned Revenue – Intragovernmental	-
Net Cost – Intragovernmental	<u>\$98</u>
Costs – With the Public	\$ -
Less Earned Revenue – With the Public	-
Net Cost – With the Public	<u>\$ -</u>
Net Cost of Operation	<u>\$98</u>

### Consolidated Statement of Changes in Net Position (SCNP) and Consolidated Statement of Financing (SOF) (in millions)

Appropriations Transferred In/Out (Unexpended Appropriations) – SCNP only	\$538
Other Financing Sources (Non-Exchange): Transfers In/Out without Reimbursement (Cumulative Results) – Both SCNP and SOF	<u>\$929</u>

### Combined Statements of Budgetary Resources (in millions)

Budgetary Resources – Budget Authority – Net Transfers, Current Year	\$11
Budgetary Resources – Budget Authority – Net Transfers, Balance	<u>\$53</u>
Budgetary Resources – Unobligated Balance – Net Transfers	\$64
Budgetary Resources – Relationship of Obligations to Outlays – Obligated Balance Transferred, Net	<u>\$561</u>

## 30. RESTATEMENTS

### A. Budgetary Obligations Related to EPR National Flood Insurance Program

DHS restated amounts in the FY 2004 combined statement of budgetary resources to correct an error associated with the recording of budgetary obligations for the National Flood Insurance Program (NFIP). EPR previously recorded a year-end obligation against budgetary allocations for estimated losses related to the NFIP. Following hurricane Katrina in August 2005, OMB informed EPR that their accounting policy of recording budgetary obligations for estimated losses, prior to the receipt of a claim and approval of payment by the government, was inconsistent with the guidance provided in OMB Circular A-11. Consistent with the guidance contained in Section 20.5 of OMB Circular A-11, EPR should enter obligations against their budgetary allocation when final approval is provided on the claim. After consultation with DHS budget management and legal council, DHS agreed to correct its accounting policy and restate its fiscal year 2004 Combined Statement of Budgetary Resources and Consolidated Statement of Financing. There was no effect on the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, or Statement of Custodial Activity due to this change in realigning flood insurance obligations. The Combined Statement of Budgetary Resources and Consolidated Statement of Financing are presented below reflecting the balances as presented in fiscal year 2004 and as restated in fiscal year 2005 financial statements.

#### Combined Statement of Budgetary Resources (in millions)

	As Presented	As Restated	Change
<b>Status of Budgetary Resources</b>			
Obligations incurred:			
Direct	\$43,628	\$42,607	\$(1,021)
Reimbursable	2,880	2,880	-
Total obligations incurred	<u>\$46,508</u>	<u>\$45,487</u>	<u>\$(1,021)</u>
Unobligated Balance			
Apportioned	\$5,691	\$6,712	\$1,021
Exempt from Apportionment	42	42	-
Unobligated Balance Not Available	1,638	1,638	-
<b>Total Status of Budgetary Resources</b>	<u>\$53,879</u>	<u>\$53,879</u>	<u>\$ -</u>
<b>Relationship of Obligations to Outlays</b>			
Accounts Payable	\$5,866	\$4,845	\$(1,021)

**Consolidated Statement of Financing (in millions)**

<b>Resources Used to Finance Activities</b>	<b>Original</b>	<b>Restated</b>	<b>Change</b>
<b>Budgetary Resources Obligated</b>			
Obligations Incurred	\$46,508	\$45,487	\$(1,021)
Obligations Net of Offsetting Collections and Recoveries	37,835	36,814	(1,021)
Net Obligations	34,056	33,035	(1,021)
<b>Total Resources Used to Finance Activities</b>	<b>34,121</b>	<b>33,100</b>	<b>(1,021)</b>
<b>Total Resources Used to Finance the Net Cost of Operations</b>	<b>29,408</b>	<b>28,387</b>	<b>(1,021)</b>
Components Requiring or Generating Resources in Future Periods:			
Increase in Claims and Claims Settlement Liabilities	-	1,021	1,021
Total Components of Net Cost of Operations that will Require or Generate Resources in Future Periods	2,368	3,389	1,021
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	3,720	4,741	1,021

**Liabilities Not Covered by Budgetary Resources (Note 13) (in millions)**

	<b>Original</b>	<b>Restated</b>	<b>Change</b>
Claims and Claims Settlement Liabilities	\$9	\$1,030	\$1,021
Total Public	29,023	30,044	1,021
Total Liabilities Not Covered by Budgetary Resources	29,273	30,294	1,021
Liabilities Covered by Budgetary Resources or Non-Entity Assets	13,046	12,025	(1,021)

**B. Correction of Error in the Accounts at ICE:**

Financial statement errors, affecting the prior year, were discovered while performing reconciliations of accounts receivable, and clearing balances carried in suspense over a long period of time. Since the errors related to transactions that occurred in prior years, correcting adjustments were made to restate the beginning fiscal year 2005 statement of net position by decreasing cumulative results of operations by \$127 million, and increasing unexpended appropriations by \$163 million.

## Required Supplementary Information (unaudited)

### DEFERRED MAINTENANCE

The Department components use condition assessment as the method for determining the deferred maintenance for each class of asset. The procedure includes reviewing equipment, building and other structure logistic reports. Component logistic personnel identify maintenance not performed as scheduled and establish future performance dates. Logistic personnel use a condition assessment survey to determine the status of referenced assets according to the range of conditions shown below:

**Good.** Facility/equipment condition meets established maintenance standards, operates efficiently and has a normal life expectancy. Scheduled maintenance should be sufficient to maintain the current condition. There is no deferred maintenance on buildings or equipment in good condition.

**Fair.** Facility/equipment condition meets minimum standards but requires additional maintenance or repair to prevent further deterioration, increase operating efficiency and to achieve normal life expectancy.

**Poor.** Facility/equipment does not meet most maintenance standards and requires frequent repairs to prevent accelerated deterioration and provide a minimal level of operating function. In some cases, this includes condemned or failed facilities. Based on periodic condition assessments, an indicator of condition is the percent of facilities and item of equipment in each of the good, fair, or poor categories.

Deferred maintenance as of September 30, 2005 was estimated to range from \$734 million to \$890 million on general property, plant and equipment and heritage assets. In fiscal year 2004, the Department reported estimated deferred maintenance of \$591 million (without range). These amounts represent maintenance on vehicles, vessels and buildings and structures owned by the Department that was not performed when it should have been or was scheduled to be and which is delayed for a future period.

A summary of deferred maintenance at September 30, 2005 is presented below (in millions):

	Low estimate	High estimate	Asset Condition
Building & Structures	\$497	\$619	Poor to Fair
Equipment (vehicles and vessels)	113	127	Poor to Fair
Heritage assets	124	144	Poor to Fair
<b>Total</b>	<b>\$734</b>	<b>\$890</b>	

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## INTRAGOVERNMENTAL TRANSACTION DISCLOSURES

Intragovernmental transaction amounts represent transactions between Federal entities included in the Financial Report of the United States Government (formerly the Consolidated Financial Statements of the United States Government) published by the U.S. Department of the Treasury. All amounts presented are net of intra-departmental eliminations.

The amount of intragovernmental assets and liabilities classified by trading partner at September 30, 2005 and 2004, are summarized below.

### Intragovernmental Assets as of September 30, 2005 (in millions)

Partner Agency	Fund Balance with Treasury	Investments and Related Interest	Advances and Prepayments	Other
Treasury General Fund	\$97,004	\$ -	\$ -	\$144
Department of Commerce	-	-	52	-
Department of Interior	-	-	31	72
Department of Justice	-	-	84	3
Department of Labor	-	-	31	-
Department of the Navy	-	-	2	17
Department of State	-	-	(2)	6
Department of Treasury	-	738	12	49
Environmental Protection Agency	-	-	-	9
Department of the Air Force	-	-	-	8
Department of the Army	-	-	-	12
Department of Transportation	-	-	2,639	2
Department of Housing and Urban Development	-	-	79	-
Office of the Secretary of Defense Agencies	-	-	8	21
The Judiciary	-	-	-	12
Other	-	-	1	6
<b>Totals</b>	<b>\$97,004</b>	<b>\$738</b>	<b>\$2,937</b>	<b>\$361</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

**Intragovernmental Assets as of September 30, 2004 (in millions)**

<b>Partner Agency</b>	<b>Fund Balance with Treasury</b>	<b>Investments and Related Interest</b>	<b>Advances and Prepayments</b>	<b>Other</b>
Treasury General Fund	\$33,436	\$-	\$ -	\$170
Department of Commerce	-	-	3	-
Department of Interior	-	-	-	69
Department of Justice	-	-	83	61
Department of Labor	-	-	63	-
Department of the Navy	-	-	12	17
Department of State	-	-	-	13
Department of Treasury	-	1,625	15	40
Social Security Administration	-	-	-	5
Department of the Army	-	-	-	12
National Science Foundation	-	-	-	6
Department of Transportation	-	-	2,673	6
Office of the Secretary of Defense Agencies	-	-	37	80
Other	-	-	-	2
<b>Totals</b>	<b>\$33,436</b>	<b>\$1,625</b>	<b>\$2,886</b>	<b>\$481</b>

**Intragovernmental Liabilities as of September 30, 2005 (in millions)**

<b>Partner Agency</b>	<b>Due to Treasury</b>	<b>Accounts Payable</b>	<b>Other</b>
Treasury General Fund	\$1,434	\$ -	\$14
Department of Agriculture	-	24	-
Department of Commerce	-	2	-
Department of Interior	-	7	-
Department of Justice	-	167	9
Department of Labor	-	3	358
Department of the Navy	-	66	2
Department of State	-	6	8
Department of Treasury	-	4	236
Department of Veterans Affairs	-	10	-
Department of the Army	-	30	77
Department of the Air force	-	23	-
Office of Personnel Management	-	6	66
Social Security Administration	-	-	10
General Services Administration	-	(40)	42
Environmental Protection Agency	-	13	2
Department of Transportation	-	2	12
Agency for International Development	-	4	-
Department of Health & Human Services	-	21	3
Department of Energy	-	144	2
National Science Foundation	-	3	-
U.S. Army Corps of Engineers	-	91	-
Office of the Secretary of Defense Agencies	-	283	12
Other	-	1	1
<b>Totals</b>	<b>\$1,434</b>	<b>\$870</b>	<b>\$854</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**



Intragovernmental Liabilities as of September 30, 2004 (in millions)			
Partner Agency	Due to Treasury	Accounts Payable	Other
Treasury General Fund	\$1,257	\$ -	\$8
Department of Agriculture	-	16	2
Department of Commerce	-	-	-
Department of Interior	-	12	-
Department of Justice	-	123	30
Department of Labor	-	-	242
Department of the Navy	-	38	7
Department of State	-	7	13
Department of Treasury	-	(4)	26
Department of Veterans Affairs	-	10	4
Department of the Army	-	24	41
Office of Personnel Management	-	4	52
Social Security Administration	-	-	9
General Services Administration	-	18	63
Environmental Protection Agency	-	10	1
Department of the Air Force	-	18	2
Department of Transportation	-	12	34
Department of Health & Human Services	-	40	6
Department of Energy	-	127	3
U.S. Army Corps of Engineers	-	136	-
Office of the Secretary of Defense	-	316	12
Agencies	-	-	-
Other	-	4	8
<b>Totals</b>	<b>\$1,257</b>	<b>\$911</b>	<b>\$563</b>

See accompanying Independent Auditors' Report.  
Required Supplementary Information

**FY 2005 Intragovernmental Exchange Revenue from Trade Transactions (in millions)**

<b>Partner Agency</b>	<b>Exchange Revenue</b>
Library of Congress	\$3
The Judiciary	63
Department of Agriculture	19
Department of Commerce	13
Department of Interior	20
Department of Justice	115
Department of Labor	8
Department of the Navy	29
United States Postal Service	6
Department of State	36
Department of Treasury	138
Department of the Army	109
Social Security Administration	94
Department of Veterans Affairs	12
General Services Administration	21
National Science Foundation	20
Department of the Air Force	8
Environmental Protection Agency	27
Department of Transportation	52
Agency for International Development	9
Department of Health & Human Services	25
Department of Housing & Urban Development	6
Department of Energy	6
Department of Education	6
U.S. Equal Employment Opportunity Commission	3
U.S. Army Corps of Engineers	12
Office of the Sec'y of Defense Agencies	59
Other	21
<b>Totals</b>	<b>\$940</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

**FY 2004 Intragovernmental Exchange Revenue from Trade Transactions (in millions)**

<b>Partner Agency</b>	<b>Exchange Revenue</b>
Executive Office of the President	\$8
Department of Agriculture	7
Department of Commerce	7
Department of Interior	7
Department of Justice	152
Department of the Navy	24
Department of State	52
Department of Treasury	70
Department of the Army	102
Social Security Administration	101
General Services Administration	16
National Science Foundation	13
Environmental Protection Agency	25
Department of Transportation	135
Department of Health & Human Services	19
Department of Education	7
National Transportation Safety Board	16
Other	5
<b>Totals</b>	<b>\$766</b>

**FY 2005 Cost to Generate Intragovernmental Exchange Revenue, by Budget Subfunction (in millions)**

<b>Budget Subfunction</b>	<b>Cost</b>
National Defense	\$6
Transportation	185
Community and Regional Development	107
Administration of Justice	72
General Government	618
<b>Total</b>	<b>\$988</b>

**FY 2004 Cost to Generate Intragovernmental Exchange Revenue, by Budget Subfunction (in millions)**

<b>Budget Subfunction</b>	<b>Cost</b>
Transportation	\$123
Community and Regional Development	87
Administration of Justice	147
General Government	840
<b>Total</b>	<b>\$1,197</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

**FY 2005 Intragovernmental Non-Exchange Revenue (in millions)**

<b>Partner Agency</b>	<b>Transfers-In</b>	<b>Transfers-Out</b>
Treasury General Fund	\$38	\$ -
Department of Agriculture	208	-
Department of Commerce	-	5
Department of Interior	64	7
Department of Treasury	17	7
Environmental Protection Agency	-	16
Department of Transportation	-	15
U.S. Army of Corps of Engineers	3	-
Office of the Sec'y of Defense Agencies	14	15
Other	2	6
<b>Totals</b>	<b>\$346</b>	<b>\$71</b>

**FY 2004 Intragovernmental Non-Exchange Revenue (in millions)**

<b>Partner Agency</b>	<b>Transfers-In</b>	<b>Transfers-Out</b>
Department of Interior	\$ -	\$7
Department of Treasury	240	161
General Services Administration	101	-
Environmental Protection Agency	-	16
Department of Transportation	-	13
Other	2	5
<b>Totals</b>	<b>\$343</b>	<b>\$202</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

**COMBINED SCHEDULE OF FY 2005 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS (IN MILLIONS)**  
(PAGE 1 OF 3)

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
<b>BUDGETARY RESOURCES</b>									
Budget Authority:									
Appropriations Received	\$17,332	\$72,014	\$894	\$1,115	\$7,649	\$1,386	\$1,702	\$4,599	\$106,691
Borrowing Authority	-	2,026	-	-	-	-	-	-	2,026
Net Transfers	232	(14)	(7)	(5)	98	-	-	22	326
Unobligated Balance:									
Beginning of Period	2,881	3,150	106	381	1,077	55	317	425	8,392
Net Transfers	(89)	-	-	-	100	-	-	-	11
Spending Authority from Offsetting Collections:									
Earned:									
Collected	4,264	2,710	1	24	421	23	54	219	7,716
Receivable from Federal Sources	(20)	(7)	-	-	(65)	5	(67)	12	(142)
Change in Unfilled Customer Orders:									
Advances Received	(17)	534	-	(4)	(7)	(12)	(7)	84	571
Without Advances From Federal Sources	251	188	5	(1)	30	(5)	7	94	569
Transfers from Trust Funds — Collected	3	-	-	-	47	-	-	-	50
Total Spending Authority from Offsetting Collections	4,481	3,425	6	19	426	11	(13)	409	8,764
									(continued)

**COMBINED SCHEDULE OF FY 2005 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS (IN MILLIONS)**  
(PAGE 2 OF 3)

**Combined Schedule of FY 2005 Budgetary Resources by Responsibility Segments (in millions), (page 2 of 3)**

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
Recoveries of Prior Year Obligations	472	614	127	64	77	-	56	21	1,431
Temporarily Not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-
Permanently Not Available	(1,828)	(38)	(5)	-	(52)	(13)	(1)	(24)	(1,961)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$23,481</b>	<b>\$81,177</b>	<b>\$1,121</b>	<b>\$1,574</b>	<b>\$9,375</b>	<b>\$1,439</b>	<b>\$2,061</b>	<b>\$5,452</b>	<b>\$125,680</b>

**STATUS OF BUDGETARY  
RESOURCES**

Obligations Incurred:

Direct	\$17,757	\$28,537	\$922	\$1,283	\$7,747	\$1,318	\$1,815	\$4,848	\$64,227
Reimbursable	2,548	1,069	5	15	374	43	(65)	405	4,394
Total Obligations Incurred	20,305	29,606	927	1,298	8,121	1,361	1,750	5,253	68,621

Unobligated Balances  
Available:

Apportioned:

Apportioned Balance Currently Available	1,030	49,290	186	277	831	1	67	155	51,837
Exempt from Apportionment	-	13	-	-	32	-	-	-	45
Unobligated Balances Not Available	2,146	2,268	8	(1)	391	77	244	44	5,177

**TOTAL STATUS OF  
BUDGETARY RESOURCES**

<b>\$23,481</b>	<b>\$81,177</b>	<b>\$1,121</b>	<b>\$1,574</b>	<b>\$9,375</b>	<b>\$1,439</b>	<b>\$2,061</b>	<b>\$5,452</b>	<b>\$125,680</b>	(continued)
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**COMBINED SCHEDULE OF FY 2005 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS (IN MILLIONS)**  
(PAGE 3 OF 3)

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>									
Obligated Balance, Net, Beginning of Period	\$4,954	\$9,125	\$550	\$571	\$2,578	\$291	\$532	\$6,167	\$24,781
Obligated Balance Transferred, Net	87	-	-	-	-	-	2	-	89
Obligated Balance, Net, End of Period:									
Accounts Receivable	(177)	(15)	-	-	(80)	(5)	(2)	(16)	(295)
Unfilled Customer Orders from Federal Sources	(739)	(524)	(6)	-	(102)	(4)	(9)	(166)	(1,550)
Undelivered Orders	4,324	19,185	404	720	2,385	163	475	6,958	34,614
Accounts Payable	1,939	2,115	175	232	676	80	154	304	5,674
Total Obligated Balance, Net, End of Period	\$5,346	\$20,761	\$573	\$952	\$2,879	\$234	\$618	\$7,080	\$38,443
<b>Outlays:</b>									
Disbursements	\$19,296	\$17,175	\$771	\$855	\$7,778	\$1,417	\$1,670	\$4,213	\$53,175
Collections	(4,249)	(3,244)	(1)	(20)	(461)	(11)	(47)	(303)	(8,336)
Total Outlays	15,047	13,931	770	835	7,317	1,406	1,623	3,910	44,839
Less: Offsetting Receipts	(2,312)	(5)	-	-	(24)	-	(1,811)	-	(4,152)
<b>NET OUTLAYS</b>	<b>\$12,735</b>	<b>\$13,926</b>	<b>\$770</b>	<b>\$835</b>	<b>\$7,293</b>	<b>\$1,406</b>	<b>(\$188)</b>	<b>\$3,910</b>	<b>\$40,687</b>

**COMBINED SCHEDULE OF FY 2004 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS - RESTATED**  
**(IN MILLIONS) (PAGE 1 OF 3)**

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
<b>BUDGETARY RESOURCES</b>									
Budget Authority:									
Appropriations Received	\$19,467	\$6,793	\$839	\$918	\$6,928	\$1,341	\$1,551	\$466	<b>\$38,303</b>
Borrowing Authority	-	26	-	-	-	-	-	-	<b>26</b>
Net Transfers	619	(63)	-	-	204	-	(25)	22	<b>757</b>
Unobligated Balance:									
Beginning of Period	3,464	3,306	25	352	1,023	101	190	198	<b>8,659</b>
Net Transfers	76	(45)	11	-	-	(1)	-	-	<b>41</b>
Spending Authority from Offsetting Collections:									
Earned:									
Collected	3,843	2,046	1	-	311	27	11	43	<b>6,282</b>
Receivable from Federal Sources	(30)	(3)	-	-	42	-	(4)	4	<b>9</b>
Change in Unfilled Customer Orders:									
Advances Received	37	25	-	22	(25)	22	10	(4)	<b>87</b>
Without Advances From Federal Sources	(21)	215	-	2	(5)	(2)	7	62	<b>258</b>
Transfers from Trust Funds	3	-	-	-	52	-	-	-	<b>55</b>
Total Spending Authority from Offsetting Collections	3,832	2,283	1	24	375	47	24	105	<b>6,691</b>
									<b>(continued)</b>



**COMBINED SCHEDULE OF FY 2004 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS - RESTATED**  
**(IN MILLIONS) (PAGE 2 OF 3)**

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
Recoveries of Prior Year Obligations	1,220	483	6	-	63	16	187	7	1,982
Temporarily Not Available Pursuant to Public Law	-	(17)	-	-	-	-	-	-	(17)
Permanently Not Available	(2,056)	(288)	(15)	(5)	(145)	(46)	(4)	(4)	(2,563)
<b>TOTAL BUDGETARY RESOURCES</b>	<b>\$26,622</b>	<b>\$12,478</b>	<b>\$867</b>	<b>\$1,289</b>	<b>\$8,448</b>	<b>\$1,458</b>	<b>\$1,923</b>	<b>\$794</b>	<b>\$53,879</b>

**STATUS OF BUDGETARY  
RESOURCES**

Obligations Incurred:

Direct	\$21,543	\$8,937	\$760	\$891	\$7,021	\$1,362	\$1,557	\$536	\$42,607
Reimbursable	1,934	389	1	17	350	42	49	98	2,880
Total Obligations Incurred	23,477	9,326	761	908	7,371	1,404	1,606	634	45,487
Unobligated Balances Available:									
Apportioned	2,091	3,047	80	381	858	11	110	134	6,712
Exempt from Apportionment	-	10	-	-	32	-	-	-	42
Unobligated Balances Not Available	1,054	95	26	-	187	43	207	26	1,638
<b>TOTAL STATUS OF BUDGETARY RESOURCES</b>	<b>\$26,622</b>	<b>\$12,478</b>	<b>\$867</b>	<b>\$1,289</b>	<b>\$8,448</b>	<b>\$1,458</b>	<b>\$1,923</b>	<b>\$794</b>	<b>\$53,879</b>

(continued)

**COMBINED SCHEDULE OF FY 2004 BUDGETARY RESOURCES BY RESPONSIBILITY SEGMENTS - RESTATED**  
**(IN MILLIONS) (PAGE 3 OF 3)**

	Border and Transport- ation Security	Emergency Preparedness & Response	Information Analysis & Infrastructure Protection	Science & Technology	U.S. Coast Guard	U.S. Secret Service	U.S. Citizenship & Immigration Services	Depart- mental Offices & Other	Total
<b>RELATIONSHIP OF OBLIGATIONS TO OUTLAYS</b>									
Obligated Balance, Net, Beginning of Period	\$7,605	\$8,038	\$192	\$119	\$2,489	\$268	\$679	\$299	<b>\$19,689</b>
Obligated Balance Transferred, Net	-	(561)	2	-	-	-	-	-	<b>(559)</b>
Obligated Balance, Net, End of Period:									
Accounts Receivable	(198)	(21)	-	-	(145)	-	(69)	(4)	<b>(437)</b>
Unfilled Customer Orders from Federal Sources	(488)	(336)	(1)	(2)	(72)	(9)	(2)	(71)	<b>(981)</b>
Undelivered Orders	9,035	8,463	412	356	2,044	246	427	371	<b>21,354</b>
Accounts Payable	2,378	1,017	140	217	751	54	176	112	<b>4,845</b>
Total Obligated Balance, Net, End of Period	\$10,727	\$9,123	\$551	\$571	\$2,578	\$291	\$532	\$408	<b>\$24,781</b>
Outlays:									
Disbursements	\$19,200	\$6,983	\$400	\$455	\$7,182	\$1,368	\$1,563	\$450	<b>\$37,601</b>
Collections	(3,883)	(2,070)	(1)	(23)	(339)	(49)	(21)	(38)	<b>(6,424)</b>
Total Outlays	15,317	4,913	399	432	6,843	1,319	1,542	412	<b>31,177</b>
Less: Offsetting Receipts	(2,292)	(2)	-	-	(20)	(1)	(1,464)	-	<b>(3,779)</b>
<b>NET OUTLAYS</b>	<b>\$13,025</b>	<b>\$4,911</b>	<b>\$399</b>	<b>\$432</b>	<b>\$6,823</b>	<b>\$1,318</b>	<b>\$78</b>	<b>\$412</b>	<b>\$27,398</b>

See accompanying Independent Auditors' Report.  
Required Supplementary Information

## CUSTODIAL ACTIVITY

Substantially all duty, tax and fee revenues collected by CBP are remitted to various General Fund accounts maintained by Treasury. Treasury further distributes these revenues to other Federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than two percent of revenues collected) directly to other Federal agencies, the Governments of Puerto Rico and the U.S. Virgin Islands, or retains funds as authorized by law or regulations. Refunds of revenues collected from import/export activities are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal government, has been authorized by law to enforce.

CBP reviews selected documents to ensure all duties, taxes and fees owed to the Federal government are paid and to ensure regulations are followed. If CBP believes duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting their claim of a lower amount due or to cancel the additional amount due in its entirety. Work in progress will continue until all protest options have expired or an agreement is reached. During this protest period, CBP does not have a legal right to the importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached. For fiscal years 2005 and 2004, CBP had legal right to collect \$1.4 billion and \$1.3 billion of receivables respectively. In addition, there was an additional \$1.86 billion and \$1.58 billion representing records still in the protest phase for fiscal years 2005 and 2004 respectively. CBP recognized as write-offs \$134 million and \$136 million respectively, of assessments that the Department has statutory authority to collect at September 30, 2005 and 2004, but has no future collection potential. Most of this amount represents fines, penalties and interest..

USCG collects various fines, penalties and miscellaneous user fees from the public that are deposited to the General Fund miscellaneous receipts of the U.S. Treasury. USCG does not collect taxes or duties. As of September 30, 2005 and 2004, USCG had outstanding general fund receipt receivables due to the Treasury General Fund of \$15 million and \$14 million, respectively.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## SEGMENT INFORMATION (IN MILLIONS):

	September 30, 2005			September 30, 2004		
	Working Capital Fund	Revolving Fund: Supply	Revolving Fund: Yard	Working Capital Fund	Revolving Fund: Supply	Revolving Fund: Yard
Fund Balance with Treasury	\$18	\$28	\$28	\$51	\$32	\$30
Accounts Receivable	10	6	7	4	6	6
Property, Plant and equipment	2	-	41	-	-	55
Other Assets	9	41	15	-	36	14
Total Assets	\$39	\$75	\$91	\$55	\$74	\$105
Accounts Payable	\$22	\$23	\$4	\$3	\$23	\$3
Other Liabilities	-	-	42	-	-	47
Total Liabilities	22	23	46	3	23	50
Net Position, Beginning	52	51	55	121	54	56
Revenue	167	96	73	8	96	78
Less: Cost	(202)	(95)	(83)	(77)	(99)	(79)
Net Position, Ending	17	52	45	52	51	55
Total Liabilities and Net Position	\$39	\$75	\$91	\$55	\$74	\$105

The Department's Working Capital Fund (WCF) is a fee-for-service fund that is fully reimbursable. The WCF provides a variety of support services primarily to the Department's components, and to other Federal entities. The WCF operates on a revolving fund basis, whereby current-operating expenses charged to the customer finance the cost of goods and services. The overall financial goal of the fund is to fully cover the operating expenses while building a minimal capital improvement reserve.

The USCG Yard revolving fund (Yard Fund) finances the industrial operations at the USCG Yard in Curtis Bay, Maryland and other USCG industrial sites. The USCG Supply revolving fund (Supply Fund) finances the procurement of uniform clothing, commissary provisions at USCG dining facilities, general stores, technical material and fuel for vessels over 180 feet in length.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## RISK ASSUMED INFORMATION

The Department has performed an analysis of the contingencies associated with the unearned premium reserve for the National Flood Insurance Program (NFIP). That analysis shows unearned premium reserve is greater than the combined values of (i) the estimated present value of unpaid expected losses and (ii) other operating expenses associated with existing policy contracts. Therefore, the Department can state the unearned premium reserve will be adequate to pay future losses and other operating expenses associated with existing policy contracts. However, there is a remote chance that the volume of flood losses in the next year could exceed the unearned premium reserve.

Our estimate of the present value of unpaid expected losses is based on a loss ratio (losses to premium), which is then multiplied by the current unearned premium reserve. This loss ratio is derived from the NFIP actual historical premium, historical losses and historical mix of business, each adjusted to today's level. More specifically, historical premiums have been adjusted to reflect the premium levels of the present by making adjustments for historical rate changes and historical changes in coverage amounts. Historical losses have been adjusted for inflation, using inflation indexes such as the Consumer Price Index as well as chain price indexes, to reflect the values that historical losses would settle as if they were settled today. In addition, the historical mix of business is adjusted to reflect today's mix of business. Examples of how the historical mix of business includes proportionately fewer pre-firm policies versus post-firm policies are in force today. Also, there are proportionately more preferred risk policies in force than in past years.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## Required Supplementary Stewardship Information (unaudited)

### HERITAGE ASSETS

**U**SCG and CBP maintain heritage assets, located in the United States, including the commonwealth of Puerto Rico. Heritage assets are property, plant and equipment that have historical or national significance; cultural, educational, or artistic importance; or significant architectural characteristics. Heritage assets are generally expected to be preserved indefinitely. Multi-use heritage assets have more than one purpose such as an operational purpose and historical purpose.

The following table summarizes activity related to Heritage Assets for the fiscal years ended September 30, 2005 and 2004 (in number of units).

	2005 (unaudited)			2004 (unaudited)		
	USCG	CBP	Total	USCG	CBP	Total
Beginning Balance	19,930	4	19,934	19,619	4	19,623
Additions	599	-	599	516	-	516
Withdrawals	(275)	-	(275)	(205)	-	(205)
Ending Balance	20,254	4	20,258	19,930	4	19,934

USCG possesses artifacts that can be divided into four general areas: ship's equipment, lighthouse and other aids-to-navigation items, military uniforms and display models. The addition of artifacts is the result of gifts to USCG.

- Ship's equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship's clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs and ship's name boards. Conditions will vary based upon use and age.
- Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus and lighthouse lenses. Buoy equipment is usually acquired when new technology renders the equipment obsolete. Classical lighthouse lenses can vary in condition. The condition is normally dependent on how long the item has been out of service. The lenses go to local museums or USCG bases as display items.
- Military uniforms are generally donated by retired USCG members and include clothing as well as insignia and accessories. Most clothing is in fair to good condition, particularly full dress items.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

- Display models are mostly of USCG vessels and aircraft. These are often builders' models. Display models are generally in very good condition. Builders' models are acquired by USCG as part of the contracts with the ship or aircraft builders. The withdrawal of display models normally results from excessive wear.

The USCG also has non-collection type heritage assets, such as sunken vessels and aircraft under the property clause of the *U.S. Constitution*, Articles 95 and 96 of the *International Law of the Sea Convention* and the sovereign immunity provisions of *Admiralty* law. Despite the passage of time or the physical condition of these assets, they remain Government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members who were lost at sea, to prevent the unauthorized handling of explosives or ordnance which may be aboard and to preserve culturally valuable relics of the USCG's long and rich tradition of service to our Nation in harm's way.

Buildings and Structures - USCG does not acquire or retain heritage buildings and structures without an operational use. Most real property, even if designated as historical, is acquired for operational use and is transferred to other government agencies or public entities when no longer required for operations. Of the USCG buildings and structures designated as heritage, including memorials, recreational areas and other historical areas, over two-thirds are multi-use heritage. The remaining are historical lighthouses, which are no longer in use and awaiting disposal; their related assets; and a gravesite. CBP also has four multi-use heritage assets located in Puerto Rico. All multi-use heritage assets are reflected on the Consolidated Balance Sheet. Financial information for multi-use heritage assets is presented in the principal statements and notes. Deferred maintenance information for heritage assets and general PP&E is presented in the required supplementary information.

## STEWARDSHIP INVESTMENTS

**D**ue to the transformational nature of DHS Programs, stewardship investments information is presented only for fiscal year 2005. Stewardship investments are substantial investments made by the Federal government for the benefit of the nation. When incurred, they are treated as expenses in calculating net cost, but they are separately reported as Required Supplementary Stewardship Information (RSSI) to highlight the extent of investments that are made for long-term benefit. Fiscal year 2005, investment amounts reported below are an allocation of gross cost based on program outlays.

### Summary of Stewardship Investments (in millions)

Programs	Non-Federal Property	Human Capital	Research and Development
SLGCP – First Responders Programs	\$ -	\$29	\$320
S&T – Research and Development Programs	-	-	543
<b>Total</b>	<b>\$ -</b>	<b>\$29</b>	<b>\$863</b>

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## INVESTMENTS IN HUMAN CAPITAL

These investments include expenses incurred for programs for education and training of the public that are intended to increase or maintain national productive capacity and that produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity. Based on a review of the Department's programs, SLGCP has made significant investments in Human Capital.

### SLGCP

**First Responders Training Programs:** In fiscal year 2005, SLGCP provided various training initiatives to improve the knowledge, skills, and abilities of first responders for prevention, response, and recovery. Highlights of performance information include:

SLGCP			
First Responders Training Programs			
Program	Performance Measure	FY 2005 Target	FY 2005 Results
State and Local Training	Average percentage increase in Weapons of Mass Destruction (WMD) and other knowledge, skills, and abilities of state and local homeland security preparedness professionals receiving training from pre and post assessments.	37%	38.5%
State and Local Training	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.	23%	40%
State and Local Training	The number of state and local homeland security preparedness professionals trained each year.	350,000	487,414

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**



## INVESTMENTS IN RESEARCH AND DEVELOPMENT

These investments represent expenses incurred to support the search for new or refined knowledge and ideas and for the application or use of such knowledge and ideas for the development of new or improved products and processes with the expectation of maintaining or increasing national productive capacity or yielding other future benefits. Based on a review of the Department's programs, SLGCP and S&T have made significant investments in Research and Development.

### SLGCP

**First Responder Research and Development Programs:** In fiscal year 2005, SLGCP supported initiatives that improved processes or capabilities of the nation's first responders for prevention, response, and recovery. Highlights of performance information include:

SLGCP			
First Responders Research and Development Programs			
Program	Performance Measure	FY 2005 Target	FY 2005 Results
National Exercise Program	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.	23%	40%
National Exercise Program	Percentage of action items identified in After-Action Reports (AAR) that were implemented.	41%	7%
State Preparedness Grants Program	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using State SLGCP approved scenarios.	23%	40%
State Preparedness Grants Program	Percent of state and local homeland security agency grant recipients reporting measurable progress towards identified goals and objectives to prevent and respond to terrorist attacks.	50%	35%
Urban Areas Security Initiative	Percent of jurisdictions demonstrating acceptable performance on applicable critical tasks in exercises using SLGCP approved scenarios.	Baseline	40%
Urban Areas Security Initiative	Percent of participating urban area grant recipients reporting measurable progress made towards identified goals and objectives to prevent and respond to terrorist attacks.	50%	8%
Technical Assistance	Percent of weaknesses addressed by Technical Assistance in fulfillment of strategic goals to prepare, prevent, and respond to terrorism incidents in the State Strategies each year.	85%	87%

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## S&amp;T

**Research and Development Programs:** In fiscal year 2005, S&T sponsored several research and development programs to advance the science and intellectual capacity needed to support the Department's mission. Highlights of performance information include:

S&T			
First Responders Research and Development Programs			
Program	Performance Measure	FY 2005 Target	FY 2005 Results
Radiological & Nuclear Counter-measures	Progression on planned capability development for Nuclear Incident Management and Recovery.	Demonstrate two advanced detection technologies.	Demonstrated two advanced detection technologies.
Threat and Vulnerability, Testing Assessments	Improvement in the national capability to assess threats and vulnerabilities to terrorist attacks: 10 categories to be assessed.	7	7
Cyber Security	Development of research infrastructure to provide broad-based support to government/university/private sector research communities, through development and support of a cyber security test bed and cyber security data sets collection and dissemination program.	Prepare demonstration of operational use of cyber security test bed	Multiple demonstrations
Explosives Counter-measures	Number of pilot tests of standoff detection technologies.	One rail environment to detect suicide bombs	One rail environment
Rapid Prototyping	Percent of technologies prototyped or commercialized.	3%	11%
Standards	Establish technical standards and test/evaluation protocols for weapons of mass destruction decontamination technologies and analysis tools. 2) Establish and accredit a network of private/public labs to perform testing, evaluation, and certification of weapons of mass destruction emergency response technologies to allow effective procurement and deployment of technologies that will substantially reduce risk and enhance resiliency of the federal, state, and local response capability.	Develop technical standards and test/evaluation protocols for WMD decontamination technologies. Develop a network of private/public labs to perform testing, evaluation and certification of WMD emergency response technologies.	Technical standards and test/evaluation protocols were developed. A network of private/public labs to perform testing, evaluation and certification of WMD emergency response technologies was developed.

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## S&amp;T

## First Responders Research and Development Programs

Program	Performance Measure	FY 2005 Target	FY 2005 Results
Biological Counter-measures	Improved capabilities to detect threats in urban areas (Urban Monitoring Program)	Increase coverage in top 10 threat cities.	Coverage was increased in top 10 threat cities.
Counter Man-Portable Air Defense System (MANPADS)	Number of effective technology/technologies for commercial aircraft to defeat man-portable anti-aircraft missiles identified. Technologies identified, and prototypes developed and tested.	2 (estimate)	2
University Programs	Number of scholars and fellows supported and number of University Centers of Excellence.	200/4	300/4
Chemical Counter-measures	Development of protocols for the highest priority toxic industrial chemicals (TICs) and toxic industrial materials (TIMs).	Protocols Developed	Development of a prototype mobile laboratory capable of on-site, high throughput analysis of TICs and CWAs was completed and the candidates characterized in field test. An initial evaluation of the risks, vulnerabilities, and consequences due to attacks using the TIC cyanide was initiated.
Interoperability & Compatibility	Improve emergency response interoperability and compatibility to strengthen public safety preparedness and response.	Develop criteria	Criteria not developed

**See accompanying Independent Auditors' Report.  
Required Supplementary Information**

## Other Accompanying Information (unaudited)

### TAX BURDEN/ TAX GAP

**T**he Compliance Measurement (CM) Program was initiated in fiscal year 1995 for the purpose of collecting objective statistical data to determine the compliance level of commercial imports with U.S. trade laws, regulations, and agreements, and to estimate the revenue gap. CM data is also used in risk management decisions to identify high-risk areas and measure the effectiveness of actions taken to improve compliance in those areas.

The preliminary overall trade compliance rate for fiscal year 2005 is 95%, a significant improvement from 89% percent in fiscal year 1998. With overall compliance at a high level, CBP has been able to emphasize matters of significant trade risk.

In fiscal year 2002, CM methodology and contents were adapted for gathering information to address security issues. The utility of statistical sampling for monitoring many kinds of cross-border activity permits CM to support CBP's priority mission of keeping terrorists and terrorist weapons from getting into the United States, while maintaining its traditional contribution to trade compliance oversight.

In fiscal year 2004, CM exam report requirements were further expanded to capture data pertaining to the 24-Hour Advance Manifest law and, in addition, to report on mismatches between bill of lading and entry summary data.

CBP has also calculated the preliminary fiscal year 2005 revenue gap to be \$409 million. The final overall trade compliance rate and estimated revenue gap for fiscal year 2005 will be issued in January 2006. This revenue gap is a calculated estimate that measures our potential loss of revenue due to noncompliance with trade laws, regulations, and agreements using a statistically valid sample of the revenue losses and overpayments detected during Compliance Measurement exams conducted throughout the year.

## IMPROPER PAYMENTS

To comply with the requirements of the *Improper Payments Information Act of 2002* (IPIA) and related guidance from the Office of Management and Budget (OMB), the Department carried out the next phase of a plan begun in fiscal year 2004, to reduce its susceptibility for issuing improper payments. In fiscal year 2004, the Department completed a risk assessment of major programs. This risk assessment did not identify any programs as at high risk for issuing improper payments. In fiscal year 2005, each component completed statistically significant testing of fiscal year 2004 payments from their largest program (with the exception of FEMA, see below). All major payment types within the largest program were sampled. Estimated error rates and amounts were calculated. As in fiscal year 2004, no program was found to exceed the OMB defined high risk standards of \$10 million and 2.5%.

FEMA's IPIA testing differed from other components as this entity faced unique circumstances and findings. FEMA's largest program in terms of fiscal year 2004 disbursements was state grants. This program is difficult to meaningfully test as the Department is not able to force states to complete IPIA compliant payment testing. FEMA's second largest program, the Individuals and Households Program (IHP), was the subject of a Department Office of Inspector General report (OIG-05-20, May 2005). Findings in this report indicated that FEMA's IHP might be at high risk for issuing improper payments. A first round of sample testing of IHP payments was inconclusive. A second round of testing showed that the program is not at high risk for issuing improper payments.

As a result of four Florida and two Gulf Coast hurricanes, FEMA issued a high level of payments in fiscal year 2005. The Department plans on extensively subjecting these payments to IPIA random sample payment testing in fiscal year 2006. If FEMA's programs are found to be at high risk, immediate actions will be taken to quantify the amount of improper payments issued, determine causes, implement corrective actions, and recover funds. The Department's Office of Inspector General has set up a new office which will exclusively examine Hurricane Katrina related payments. Additionally, the General Accounting Office is conducting an audit of purchase card payments, procedures, and controls as part of a government-wide analysis of the Federal response to Hurricanes Katrina and Rita.

Two major changes from fiscal year 2004 occurred as DHS' IPIA compliance program matured. The first change was in the definition of IPIA programs. In fiscal year 2004, an IPIA program was defined by the Future Years Homeland Security Program (FYHSP). FYHSP definitions offered consistent program reporting but proved unsuitable for IPIA sample testing as costs are allocated as a group and are not identified at the transaction level. In fiscal year 2005, DHS changed the definition of a program to Treasury Appropriation Fund Symbol (TAFS). This definition was supported by all component accounting systems at the transaction level. This change was approved by OMB and allowed for ready identification of each component's largest IPIA program.

The second major change to the Department's IPIA compliance program in fiscal year 2005 was the testing of major payment types for each component's largest program (as ranked by fiscal year 2004 disbursed dollars). Fiscal year 2004 program risk scores were based on internal control, human capital, programmatic risk and materiality of operating budget risk factors but did not consider individual payment types. Fiscal year 2005's disbursement dollar driven risk assessment reflects the use of common financial systems and payment processes to support all TAFS within a component. If sample

testing from the largest program showed a payment type to be at high risk for the issuance of improper payments, all TAFS within that component would be tested. As the reporting details show, no major payment type or program produced sizable enough errors to necessitate testing across all TAFS within any component. Major payment types tested included commercial, travel, grant, employee reimbursement, purchase card, and state and local.

Major IPIA programs were defined by exceeding \$100 million in non-payroll, non-intergovernmental annual disbursements. Programs issuing fewer disbursements were assumed to be too small to exceed OMB's \$10 million of erroneous payments reporting floor. Payroll disbursements were excluded because of their repetitive, stable nature and the extensive internal controls they are subjected to. Intergovernmental payments were excluded as they are internal payments which do not put the Federal Government, as a whole, at risk.

Looking to fiscal year 2006, the Department expects to enter a fully mature phase of its IPIA program. This phase will feature comprehensive component testing of all programs issuing more than \$100 million of IPIA covered disbursements, independent payment sample testing, and strengthened internal control audit testing. Finally, extra controls may need to be put in place for components that switch to a new financial system or are restructured.

To further identify and recover improperly disbursed funds and to comply with Section 831 of the *Defense Authorization Act for Fiscal Year 2002*, the Department hired an independent contractor who conducted recovery audit work at two major components, ICE and CBP. This recovery audit work over all fiscal year 2004 disbursements identified more than \$2.1 million of improper payments and recovered more than \$1.2 million. DHS is considering expanding recovery audit work to other components in fiscal year 2006.

## REPORTING DETAILS

### I. Risk Assessment Process and IPIA Risk-Susceptible Programs

#### Risk Assessment Process

The Department uses Treasury Appropriation Fund Symbol (TAFS) to define IPIA programs. Within a component, the same financial systems and payment processes are shared across TAFS. This sharing of systems and people means that sample testing of the largest TAFS provides good risk assessment information on smaller TAFS. An exception would be a TAFS that had some unique payment process that was not tested under the largest TAFS. Each component tested their largest TAFS and calculated the resulting error amounts and rates. This information was used to judge the risk to smaller TAFS. All risk assessments were component self-assessed.

Independently assessed data came from two sources. In the second half of the year at CBP and ICE, Horn & Associates Inc. carried out contract recovery audit work. This work has supported the conclusions reached in the component self-assessments. In May of 2005, the Department's Office of Inspector General (OIG) issued report OIG-05-20, *Audit of FEMA's Individuals and Households Program (IHP) in Miami-Dade County, Florida, for Hurricane Frances*. This report listed improper payment findings including problems with training of key personnel, estimation and verification of losses, and payment system edits. Though some of these problems were unique to the multi-hurricane ravaged condi-

tions which occurred in Florida, many findings applied nationally. The findings listed in the report and an inconclusive first round of IPIA sample payment testing resulted in a second, roughly three times larger, second round of sample testing for the FEMA program. This second round of testing found that the IHP did not exceed OMB's \$10 million and 2.5% thresholds for fiscal year 2004 disbursements.

#### IPIA Risk-Susceptible Programs

The Department has no programs which had improper payment information formerly reported under Section 57 of OMB Circular A-11. The Department has no programs which tested as at high risk for the issuance of improper payments based on sample testing of fiscal year 2004 disbursements.

At year-end, recovery audit contractor testing at ICE identified more than \$2.1 million dollars and at CBP less than \$50,000 of erroneous fiscal year 2004 payments across all programs. The recovery audit at ICE is mostly complete. An examination of telephone bills is estimated to yield around \$1 million dollars in further erroneous payments. Significant recovery audit work at CBP remains. The \$50,000 erroneous payment finding should be treated as a low estimate and not a final estimate. These audit recovery results are consistent with the self-assessed finding by ICE and CBP that their largest programs are not at high risk for issuing improper payments.

The majority of problems described in the OIG report on FEMA's Individuals and Households Program (IHP) pertain to fiscal year 2005 issued payments. FEMA has implemented many corrections suggested in the report. The IHP will continue to receive close IPIA related scrutiny and undergo independent payment review in fiscal year 2006. To date, sample payment testing has not shown the program to be at high risk for improper payments.

## **II. IPIA Statistical Sampling Process**

Each component, except FEMA for reasons described earlier, identified their largest program based on the amount of fiscal year 2004 disbursements issued, excluding payroll and intergovernmental payments. If the largest program issued at least \$100 million of non-excluded payments, the component completed a sampling for each major payment type. Per OMB Guidance, sample sizes were at least 126 payments supporting at a 90% confidence interval error rates up to 5.5%. Major payment types tested included: travel, employee reimbursements, commercial payments, grants, and contracts.

The projected error rate was the actual error rate from the sample. The projected error amount was the actual error amount multiplied by the disbursement population total divided by the sample disbursement total rounded. Thus, for example, if 2% of all disbursement dollars were sampled, the projected error amount for that TAFS was 50 times the actual error amount from the sample rounded. Any programs or segments found to issue anywhere near the \$10 million and 2.5% OMB defined IPIA reporting thresholds had to either complete a larger, more precise sample or develop and implement corrective action plans with out year estimates of progress. Errors below \$10 were ignored so long as, collectively, they did not exceed \$100.

## **III. Corrective Action Plans**

The lack of an identified high risk IPIA program meant that no formal corrective action plans were requested or completed by any component.



FEMA did implement several of the recommendations from the DHS OIG report on the Individuals and Households Program. Implemented corrections included: improving inspection guidelines, overhauling loss calculation methodology, improving loss documentation standards, ensuring that inspectors do not live in inspection areas, and improving pre- and post-payment financial system edits.

#### IV. Sample Test Results

All sample sizes were 126 except for FEMA's 2nd round of testing which had a sample size of 400. The OIG and FLETC did not have a TAFS program which exceeded \$100 million in IPIA eligible fiscal year 2004 disbursements. Consequently, these two components did not perform IPIA sample payment testing.

Component	TAFS	Payment Type	% Error Rate (by \$'s)	Sample Error Amount	Disbursement Total for Type	Projected Error Amount
CBP	70X0503	Commercial	0.0%	\$1,382	\$481,500,000	\$84,900
	70X0503	Travel/Employee Reimbursements	0.1%	\$347	\$30,900,000	\$26,100
FEMA	70X0702	Travel	0.1%	\$229	\$70,300,000	\$69,900
	70X0702	Commercial	0.0%	\$0	\$262,300,000	\$0
	70X0702	IHP (1 <sup>st</sup> round)	3.5%	\$5,100	\$886,200,000	\$31,321,000
	70X0702	IHP (2 <sup>nd</sup> round)	0.8%	\$3,976	\$886,200,000	\$6,986,000
ICE	7040540	Contract	0.2%	\$6,264	\$359,100,000	\$753,900
	7040540	Travel/Employee Reimbursements	5.3%	\$3,575	\$48,000,000	\$2,550,000
	70X5088	Contract	0.1%	\$7,559	\$254,400,000	\$150,400
SLGCP	70X0511	Grant	0.0%	\$0	\$570,500,000	\$0
	70X0511	Commercial	0.0%	\$257	\$51,800,000	\$300
TSA	70X0550	Contract	0.7%	\$59,403	\$485,500,000	\$3,300,000
	70X0550	Travel	1.3%	\$5,672	\$63,700,000	\$842,000
USCG	7040610	Contract	0.0%	\$0	\$321,000,000	\$0
	7040610	Travel	0.8%	\$446	\$134,000,000	\$1,000,000
	7040610	All Other	0.0%	\$0	\$221,000,000	\$0
USSS	70X0400	DC Pension	0.0%	\$0	\$126,000,000	\$0
	7040400	Commercial	0.0%	\$0	\$110,000,000	\$0

#### V. Recovery Audit Efforts

Recovery audit contract work is underway at ICE and CBP. The contractor is Horn & Associates, Inc. All fiscal year 2004 payments are under review. No payment groups are excluded. Collection efforts are carried out by component staff after the contractor has identified a set of payments as improper



and component staff have concurred. Collections efforts center on letters stating the facts behind each improper payment and demanding repayment.

An analysis of ICE improper payments has identified the following sources of error: human error, receipt of original invoices followed by faxed copies from program offices, multiple payment databases, and inadequate systems validations. All of these issues are currently being addressed by ICE management. CBP is too early in the recovery audit to meaningfully identify error patterns.

Component	Amount Subject to Review	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amount Identified/ Actual Amount Reviewed	Amounts Recovered CY	Amounts Recovered PY(s)
ICE	\$2,006,600,000	\$2,006,600,000	\$2,157,000	\$1,700,000,000	\$1,200,000	\$0
CBP	\$1,225,700,000	\$1,225,700,000	\$34,000	\$777,000	\$7,000	\$0

## VI. Holding Management Accountable

Supporting the President's Management Agenda (PMA) is a critical financial management goal of the Department. The Under Secretary for Management oversees implementation of the PMA and reports regularly to the Secretary. Given quarterly grading by OMB under the Erroneous Payments PMA Program Initiative, management is constantly under pressure to demonstrate progress in stopping and recovering improper payments.

## VII. Information Systems Support

The Department has not set formal improper payment reduction targets as no program has been identified as at high risk for issuing improper payments. Components, particularly FEMA, have been successful in implementing improved improper payment edits using their existing financial systems. No specific IPIA related financial systems requests have been made to Congress.

## VIII. Regulatory Barriers Which May Limit Corrective Action Plan Implementation

This standard is not yet applicable to the Department as there are no IPIA corrective action plans to limit.

## IX. Additional Comments

In fiscal year 2005, the Department succeeded in carrying out improper payment sample payment testing on each component's largest program. The results indicate that though several million dollars of improper payments are issued each year, no program exceeds the OMB defined IPIA reporting thresholds of \$10 million dollars and 2.5%. This testing consisted primarily of component self-assessments supplemented by independent review by the DHS Office of Inspector General and a recovery audit contractor. In fiscal year 2006, the Department will expand the use of independent review and expects to become fully IPIA compliant.

## EFFECTS OF HURRICANES KATRINA AND RITA

The devastating effect of the Hurricanes Katrina and Rita on the Gulf States was unparalleled in recent history. The loss of life and property were unimagined until this time. The U.S. Government proceeded to create two supplemental appropriations for the Federal Emergency Management Agency totaling \$60 billion to meet immediate needs arising from the consequences of Hurricane Katrina for fiscal year ending September 30, 2005, and for other purposes. The main DHS components to be affected by the hurricane are FEMA and the USCG. Other components that had minor costs related to Katrina were CBP, TSA and ICE.

### FEMA

These appropriations included \$100 million that has been transferred to the Emergency Preparedness and Response, Public Health Programs and \$15 million that has been transferred to the Departmental Management and Operations, Office of Inspector General. In October 2005, Public Law 109-88 provided that \$750 million of these funds is to be transferred to the Disaster Loan Program. In fiscal year 2005, FEMA obligated \$15.8 billion and expended \$3.5 billion of these appropriated funds.

#### Disaster Relief Fund

##### Statement of Budgetary Resources (in millions)

#### Budgetary Resources

Budget Authority	\$68,542
Net Transfers, current year	(115)
Unobligated balance, brought forward	713
Recoveries of prior year obligations	548
Total Budgetary Resources	<u>\$69,688</u>

#### Status of Budgetary Resources

Obligations Incurred, Direct	\$23,159
Unobligated balance, available	46,358
Unobligated balance, unavailable	171
	<u>\$69,688</u>

Obligated balance, net Oct 1	\$6,385
Obligated balance, net, end of period:	
Accounts Receivable	(1)
Undelivered Orders	16,255
Accounts Payable	895
Obligated balance, net, end of period	<u>\$17,149</u>

#### Outlays

Disbursements	\$11,846
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**Disaster Relief Emergency Supplemental Appropriations (in millions)**

Appropriated (on 9/5/2005)	\$10,000
Appropriated (on 9/12/2005)	50,000
Transferred	(115)
Net appropriation	<u>\$59,885</u>
Obligated	\$15,845
Less: Expended	3,514
Unliquidated obligations at 9/30/05	<u>\$12,331</u>

	Obligated	Expended	Unliquidated
Katrina Florida	\$13	\$1	\$12
Katrina Louisiana	8,536	2,405	6,132
Katrina Mississippi	4,348	566	3,782
Katrina Alabama	1,401	97	1,304
Rita Texas	728	229	499
Rita Louisiana	499	173	325
States with Katrina Evacuees	320	43	277

**COAST GUARD**

Hurricanes Katrina and Rita have resulted in an unprecedented number of oil spills to navigable waters and adjoining shorelines. OSLTF funds have not been expended thus far in response to this disaster. The \$255 million in Stafford Act funding for pollution response falls short of the total estimated costs of continued Federal cleanup response, as well as the economic and environmental damage compensation anticipated. The USCG is working with FEMA, EPA and the Department of Homeland Security to ensure either continued availability of Stafford Act funding, or replacement of Stafford Act funding with something similar that shields the OSTLF from Hurricane Katrina and Rita impacts.

Various categories of USCG PP&E assets have suffered damage from Hurricane Katrina along the Gulf Coast. Damage assessments are continuing to be received. Some damage assessments have been completed, and to date have resulted in thirty-three (33) buildings, structures, and general purpose property being destroyed with a total net book value of \$886,702. The estimated cost to rebuild or replace these damaged assets is over \$14.2 million dollars. Damage assessments are on-going, and as the USCG receives them, additional adjustments to specific assets will be required. In addition to destroyed assets, numerous categories of USCG PP&E buildings and structures ranging from USCG Stations, Air Stations, Aids to Navigation (Range Lights), Storage Buildings, Marine Safety Units, Integrated Support Commands, Sector Commands, Recruiting Offices, other miscellaneous assets have suffered damage, and although operational in some capacity, will require repairs or potential replacement once assessments are complete. The USCG is currently compiling projected resource requirements for all assets affected by Katrina and Rita and will be requesting supplemental funding.